



August 18, 2022

VIA CFTC PORTAL

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

Re: Rule Certification Concerning One Multiplier Options

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, The Options Clearing Corporation (“OCC”) hereby certifies changes to OCC By-Laws and Rules to accommodate the issuance, clearance and settlement of index options and flexibly structured index options with an index multiplier of one (collectively “One Multiplier Options”). The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal has also been submitted to the Securities and Exchange Commission (“SEC”) under Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 19b-4 thereunder.

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

Explanation and Analysis

The purpose of this proposed rule change is to accommodate the issuance, clearance and settlement of index options and flexibly structured index options with an index multiplier of one (collectively “One Multiplier Options”). Proposed amendments to the Rules can be found in Exhibit A. Material proposed to be added to OCC’s By-Laws as currently in effect is underlined and material proposed to be deleted is marked in strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.¹

¹ OCC’s By-Laws and Rules can be found on OCC’s public website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

The Cboe Exchange (“Cboe”) received approval from the Commission to list One Multiplier Options as a variation of currently-traded index and index flex options.² One Multiplier Options are similar to currently traded index and index flex options except that the multiplier for such options will be one rather than 100. With the proliferation of options with multipliers less than 100, OCC is proposing to modify its Rules to explicitly allow for a corresponding reduction in the automatic exercise threshold used for expiration processing for these products.

OCC Rule 1804 provides expiration procedures for cash-settled options. Rule 1804(b) establishes that expiring index options with standard expiration dates will be automatically exercised on an option’s expiration date if it is in-the-money by \$1.00 or more per contract unless a Clearing Member instructs that any such option contract should not be exercised. Options are exercised under this section as an operational convenience for Clearing Members to automatically exercise an option that is in-the-money by \$1.00 or more, but Clearing Members have the ability to prevent the exercise of an in-the-money option that would otherwise be deemed exercised by submitting contrary exercise instructions. OCC proposes to make Rule 1804(b) applicable to One Multiplier Options that are not flexibly structured index options. Rule 1804(c) addresses expiration processing for expiring OTC index option contracts, flexibly structured index option contracts, quarterly index option contracts, monthly index option contracts, weekly index option contracts, and short term index options, and these products will be subject to automatic exercise on an option’s expiration date if the option is in-the-money by the threshold amount specified in the rule.³ By product design, the index product types covered by Rule 1804(c) are automatically exercised if expiring option contracts meets the exercise threshold established therein, and Clearing Members do not have the ability to submit instructions to prevent the exercise of an option that is in-the-money by the exercise threshold amount. OCC proposes to make Rule 1804(c) applicable to flexibly-structured One Multiplier Options.

With the exception of OTC index options, Rule 1804(b) and (c) set \$1.00 per contract as the threshold amount to determine if an expiring index option contract will be deemed exercised immediately prior to the expiration time of the index option, meaning such options will be exercised if the Exercise Settlement Amount of such option is \$1.00 or more. As defined in Article XVII Section 1 of the OCC By-Laws, the Exercise Settlement Amount is the difference between the aggregate exercise price and the aggregate index value on the day of exercise. The \$1.00 amount provided in Rule 1804(b) and (c) serves as a threshold amount to determine which option positions will be automatically exercised. In other words, index option positions, other than OTC index option positions which have an exercise threshold amount of \$0.01 per contract, will be deemed

² See Securities Exchange Act Release No. 34-91528 (April 9, 2021), 86 FR 19933 (April 15, 2021) (SR-CBOE-2020-117), and Securities Exchange Act Release No. 34-993122 (September 24, 2021), 86 FR 54269 (September 30, 2021) (SR-CBOE-2021-041).

³ Currently, Rule 1804(c) establishes a \$0.01 per contract automatic exercise amount for OTC index options and a \$1.00 per contract automatic exercise amount for all other index option types addressed in Rule 1804(c).

automatically exercised if the option is in-the-money by \$1.00 or more per contract on an option's expiration date.

One Multiplier Options are 1/100th the size of most index option or index flex option on the same underlying index. Whereas the standard option has a multiplier of 100, One Multiplier Options will have a multiplier of one, meaning that the exercise settlement amount for One Multiplier Options will be determined as the difference between the strike price (multiplied by one) and the index value (multiplied by one). Due to the decrease in product size as the result of the smaller multiplier, Cboe requested a proportionate reduction to the exercise threshold amount as established in Rule 1804(b) and (c).⁴ Consequently, OCC proposes to amend Rule 1804(b) and (c) to establish an exercise threshold that is 1/100th the size of a standard option, or \$0.01 per contract for the One Multiplier Options.

To achieve this outcome, OCC proposes to amend Rule 1804 to state that any index option with a multiplier of one will have an exercise threshold of \$0.01 per contract. The threshold amount for all other options included in Rule 1804 will remain unchanged. To clearly differentiate between the exercise amounts for options with a multiplier of one from other options, OCC proposes to modify Rule 1804(b) and (c) to include separate subsections in Rule 1804(b)(1) and (2) and Rule 1804(c)(1), (2) and (3).

As noted previously, Rule 1804(b) and (c) allow OCC to establish a different threshold amount by providing 30 days' prior notice to Index Clearing Members. OCC believes that the proposed rule change will subsequently align the exercise threshold in the rule with the exercise threshold for One Multiplier Options established by previously providing the required 30 days' advance notice in the form of an Information Memo.

Consistency with DCO Core Principles

OCC reviewed the DCO core principles ("Core Principles") as set forth in the Act, the regulations thereunder, and the provisions applicable to a DCO that elects to be subject to the provisions of 17 CFR Subpart C ("Subpart C DCO"). During this review, OCC identified the following as potentially being impacted:

⁴ Pursuant to Rule 1804, OCC may change the exercise threshold amounts by providing Clearing Members with notice of the new threshold amount not less than 30 days prior to the effective date of the new threshold amount. OCC provided such notice to Clearing Members by posting OCC Information Memo #50046 on the OCC website on February 11, 2022, stating that index and flexibly structured index options with a multiplier of one will have an exercise threshold of \$0.01 per contract. Cboe launched standard One Multiplier Options on March 14, 2022 and OCC applied the \$0.01 exercise threshold to the product at that time. Given the proliferation of options with multipliers less than 100, OCC is proposing this change to its Rules to explicitly state an exercise threshold that should apply to each product with this characteristic.

Legal Framework and Public Information. OCC believes that implementing the changes will align with Core Principle R,⁵ and CFTC Rule 39.27 thereunder,⁶ which require, in part, that a DCO have a well-founded, transparent, and enforceable legal framework for each aspect of its activities. In addition, OCC believes the changes are consistent with Core Principle L,⁷ and CFTC Rule 39.21 thereunder,⁸ which require, in part, that a DCO make information concerning the rules and operating and default procedures governing the clearing and settlement systems of the DCO available to market participants,⁹ and making its rulebook publicly available on its website.¹⁰ OCC believes that implementing the changes and posting the updated By-Laws to OCC's public website would protect investors and the public interest by setting forth a clear legal framework for One Multiplier Options.

Opposing Views

No substantive opposing views were expressed related to the rule amendments by OCC's Board members, Clearing Members or market participants.

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 this certification on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Exhibit A 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,

/s/ Karen Bilek
Associate General Counsel

Enclosure: Exhibit A

⁵ 7 U.S.C. 7a-1(c)(2)(R).

⁶ 17 CFR 39.27.

⁷ 7 U.S.C. 7a-1(c)(2)(L).

⁸ 17 CFR 39.21.

⁹ 7 U.S.C. 7a-1(c)(2)(L)(ii); 17 CFR 39.21(b).

¹⁰ 17 CFR 39.21(c)(6). See also 7 U.S.C. 7a-1(c)(2)(L)(iii)(I) (requiring a DCO to disclose publicly the terms and conditions of each contract, agreement, and transaction cleared and settled by the DCO).

EXHIBIT A



Rules

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

CHAPTER XVIII – INDEX OPTIONS AND CERTAIN OTHER CASH-SETTLED OPTIONS

RULE 1804 - Expiration Exercise Procedure for Cash-Settled Options

(a) The expiration exercise procedures set forth in Rule 805 shall apply to cash-settled option contracts except that American-style flexibly structured options on fund shares that are cash settled and subject to delayed settlement for any deliverable component will not be subject to Rule 805(d), and except as provided in paragraphs (b) and (c) of this Rule.

(b) A Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring cash-settled option contract identified in the Clearing Member's Expiration Exercise Report, other than a flexibly structured option on fund shares that is cash settled, a flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, short term index option contract or OTC index option contract, if:

(1) for cash settled option contracts with a multiplier other than one, each option contract that has an exercise settlement value of \$1.00 or more per contract, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b), and

(2) for cash settled option contracts with a multiplier of one, each option contract that has an exercise settlement amount of \$0.01 or more per contract or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

(c) A Clearing Member shall be automatically deemed to have exercised, immediately prior to the expiration time on each expiration date, every expiring OTC index option contract, flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, and short term index option contract identified in the Clearing Member's Expiration Exercise Report if:

(1) for OTC index option contracts, each option contract that has an exercise settlement amount of \$0.01 or more per contract; ~~in the case of OTC index option contracts and~~

(2) for all other types of index option contracts referenced in this Rule 1804(c) with a multiplier other than one, each option contract has an exercise settlement amount of \$1.00 or more per contract ~~in the case of all other types of index option contracts~~ or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members; and

(3) for all other types of index option contracts referenced in this Rule 1804(c) with a multiplier of one, each option contract that has an exercise settlement amount of \$0.01 or more per contract or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members.

. . . Interpretations and Policies:

.01 Except in the case of options that are subject to automatic exercise, the exercise thresholds provided for in this Rule 1804 and elsewhere in the Rules are part of the administrative procedures established by the Corporation to expedite its processing of exercises of expiring options by Clearing Members, and are not intended to dictate to Clearing Members which positions in the customers' account should or must be exercised.

.02 The foregoing expiration exercise procedures are modified by the provisions of Article XVII, Section 4 of the By-Laws under the special circumstances referred to therein relating to the unavailability or inaccuracy of the current value for an underlying interest.

.03 The Corporation has determined that, for purposes of paragraph (c) of this Rule 1804, an OTC index option will be automatically exercised at expiration if the exercise settlement amount is any positive amount.

.04 "Closing price" as used with respect to an underlying security in Rule 805 pertains to the expiration exercise procedure for flexibly structured options on fund shares that are cash settled.