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SR-OCC-2004-06

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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Form 19b-4

Proposed Rule Change  
by

THE OPTIONS CLEARING CORPORATION

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

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

The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to amend Chapters VIII and XVIII of its Rules as set forth below. Material to be added to Chapters VIII and XVIII as currently in effect is underlined. Material to be deleted is enclosed in bold brackets.

**THE OPTIONS CLEARING CORPORATION**

**RULES**

**CHAPTER VIII**

**Exercise and Assignment**

**Exercise of Options**

**RULE 801.** Issued and unexpired option contracts may, subject to Exchange Rules and the By-Laws, be exercised as follows:

(a) – (b) [unchanged]

(c) Any expiring American option contract [that expires on a Saturday] may be exercised on its expiration date in accordance with Rule 805. Any capped or European option contract [that expires on a Saturday] may be exercised (other than automatically exercised in the case of a capped option) only on its expiration date in accordance with Rule 805. [Any expiring American option contract that expires on a business day may be exercised on its expiration date in accordance with Rule 805. Any European option contract that expires on a business day may be exercised only on its expiration date in accordance with Rule 805.] Notwithstanding the foregoing, any expiring [American, European, or Capped-Style]flexibly structured index option contract that meets the exercise parameters set forth in Rule 1804(c) will be automatically exercised on its expiration date in accordance with that rule. No expiring option contract other than an American style flexibly structured option contract, a foreign currency option contract, or a cross-rate foreign currency option contract may be exercised on the business day immediately preceding its expiration date.

(d) – end [unchanged]

\* \* \*

## CHAPTER XVIII

### Index Options

\* \* \*

#### Expiration Date Exercise Procedure for Index Options

**RULE 1804.** (a) [The expiration date exercise procedures set forth in Rule 805 shall apply to index option contracts (including capped index option contracts, but excluding flexibly structured index option contracts) that expire on Saturday except that:

(1) For the purpose of clauses (i) and (ii) of subparagraph (d)(2) of Rule 805 the aggregate price interval applicable to index option contracts shall be \$1.00 per index option contract, or such other amount as the Corporation may from time to time establish on not less than 30 days prior written notice to all Index Clearing Members.

(2) The term "closing price," as used in subparagraph (d)(2) of Rule 805 in reference to the index underlying any index option contract, shall mean the current index value of such index (as defined in Article XVII of the By-Laws) on the preceding trading day. Notwithstanding the foregoing, if no index value was reported, or if the Corporation was unable to obtain an index value on such preceding trading day, the Corporation may, in its discretion, (i) fix a "closing price" for the underlying index on such basis as it deems appropriate in the circumstances (including, without limitation, using the most recent index value available) or (ii) determine not to fix a closing price for the underlying index. In the event of a determination not to fix a closing price for the underlying index, the Expiration Exercise Reports will not include a closing price for the underlying index, and Clearing Members may exercise option contracts for which that index is the underlying index only by giving affirmative exercise instructions in accordance with the provisions of Rule 805.

(b) [The expiration date exercise procedures set forth in Rule 805 shall apply to [American, Capped and European Quarterly Index Expiration] index option contracts [expiring on a business day] except as provided in paragraphs (b) and (c) of this Rule.] that each 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 each Quarterly Index Expiration contract listed in the report which is made available to the Clearing Member pursuant to Rule 805:

(1) which the Clearing Member has instructed the Corporation to exercise in accordance with Rule 805, or

(2) (b) An Index 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 index option contract listed in the Index Clearing Member's Expiration Exercise Report, other than a flexibly structured index option contract, that [which] has an [aggregate exercise price below (in the case of a call) or above (in the case of a put) the aggregate current index value by] exercise settlement value of \$1.00 or more per [index option] 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 [the Quarterly Index Expiration] such contracts [of such series]. 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) [The expiration date exercise procedures set forth in Rule 805 shall apply to American, European and Capped-Style flexibly structured index option contracts whenever expiring, except that each] An Index Clearing Member shall be automatically deemed to have exercised [properly and irrevocably tendered to the Corporation], immediately prior to the Expiration Time on each expiration date, [an exercise notice with respect to each] every expiring flexibly structured index option contract listed in the Index Clearing Member's Expiration Exercise Report [report made available to the Clearing Member pursuant to Rule 805] that has an [aggregate exercise price below (in the case of a call) or above (in the case of a put) the aggregate current index value by] exercise settlement amount of \$1.00 or more per [flexibly structured index option] contract [in any account], 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.

(d) [unchanged]

### **...Interpretations and Policies**

**.01** The exercise thresholds provided for in this Rule 1804[(b)(2)] 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 date 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 a current index value for the underlying index.

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

The proposed rule change was approved by the Board of Directors of OCC at a

meeting held on October 24, 2003.

Questions regarding the proposed rule change should be addressed to Jean M. Cawley, First Vice President and Deputy General Counsel, at (312) 322-6269.

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

The purpose of this rule change is to modify OCC's Rule 1804, which governs expiration date exercise procedures for index options, to accommodate the fact that European-style options on various volatility indexes ("VIX Options") proposed to be listed by the Chicago Board Options Exchange ("CBOE") will expire on Wednesday rather than on Saturday. OCC is also taking this occasion to simplify the structure of Rule 1804.

CBOE's rule filings with respect to VIX Options provide that VIX Options will expire on a Wednesday. (*See* SR-CBOE-2003-40 and Amendments 1 & 2.) However, as currently drafted, OCC Rule 1804 contemplates that only quarterly index options ("QIX Options") and flexibly structured index options ("Flex Options") will expire on a business day. This proposed rule change would accommodate VIX Options by modifying Rule 1804 to remove descriptions of the day of the week on which certain options expire and to make clear that, regardless of their expiration date, all index options other than Flex Options have the same expiration date exercise procedure.

OCC Rule 1804(b) governs QIX Options "expiring on a business day." Rule 1804(b) was proposed in September of 1992. (*See* SR-OCC-92-27 and Amendment 1 thereto.)

At that time, OCC ran both a preliminary and a final report for clearing members to use in exercise-by-exception (“ex-by-ex”) processing with respect to all options except for European-style treasury options that had a business day expiration. Under OCC Rule 806, clearing members received only one expiration exercise report for European-style treasury options with business day expirations because OCC was not able to process both a preliminary and a final expiration exercise report on a business day. Because QIX Options also expire on a business day, Rule 1804(b) was adopted to state that QIX Options would be settled pursuant to the single expiration exercise report procedure set forth in OCC Rule 806, as modified by Rule 1804(b).

In 1995, OCC revised its expiration date exercise procedures to do away with the preliminary and final expiration exercise reports and instead to provide only one expiration exercise report for all options. (*See* SR-OCC-95-10.) As part of that change, OCC eliminated Rule 806—it was no longer necessary to provide separately for a single expiration exercise report for certain options expiring on a business day because all options were to have a single expiration exercise report. With the move from two expiration exercise reports to one, Rule 1804(b) became the same in substance as Rule 1804(a).

The changes OCC now proposes to Rule 1804 would eliminate the redundancies in that rule and eliminate references to Saturday versus business day expirations. Current Rule 1804(a) is eliminated as redundant because revised Rules 1804(b) and (c) clearly establish the ex-by-ex thresholds for index options. It is unnecessary to retain current Rule 1804(a)(2)’s definition of the term “closing price” in respect of index options because revised Rule 1804(a)(1) relies instead on the term “exercise settlement amount,” which is defined in Article XVII of OCC’s By-Laws. Furthermore, the procedures that may be followed by OCC in the event of the

unavailability of an index value are proposed to be eliminated from current Rule 1804(a)(2) because they are set forth in more detail in Article XVII, Section 4 of the By-Laws, which is cross-referenced in new Interpretation and Policy .02. Existing Rule 1804(c), which provides for “true” automatic exercise (i.e., no exception procedures) for FLEX Options is retained without substantive modification. Finally, simplifying and conforming changes are proposed in Rule 801 and the Interpretations and Policies to Rule 1804.

\* \* \*

The proposed changes to OCC’s By-Laws and Rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because they are designed to promote the prompt and accurate clearance and settlement of securities transactions, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.

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

OCC does not believe that the proposed rule change would impose any 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**

Not applicable.

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

OCC requests that the proposed rule change be made effective upon filing pursuant to Section 19(b)(3) of the Exchange Act and Rule 19b-4(f)(4) thereunder because the proposed rule change effects changes in existing services of OCC that (1) do not adversely affect the safeguarding of securities or funds in the custody or control of OCC or for which is its responsible and (2) do not significantly affect the respective rights or obligations of OCC or its clearing members.

OCC currently uses the same expiration date exercise procedures for options that expire on a business day and a Saturday. This proposed rule change merely clarifies this point, eliminates certain redundancies in Rule 1804, and removes language that indicates that only QIX Options and FLEX Options expire on a business day. The proposed rule change does not substantively affect the manner in which OCC safeguards funds or securities or the rights and obligations of clearing members.

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

Not applicable.



**Item 9.      Exhibits**

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

**SIGNATURE**

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: \_\_\_\_\_

**William H. Navin**  
**Executive Vice President and**  
**General Counsel**



**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-\_\_\_\_\_; File No. SR-OCC-2004-06**

**SELF-REGULATORY ORGANIZATION**

Proposed Rule Change By  
The Options Clearing Corporation

Relating to Index Option  
Expiration Date Exercise Procedures

Comments requested within \_\_\_\_\_ days  
after the date of this publication.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C.

'78s(b)(1), notice is hereby given that on \_\_\_\_\_, 2004, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the  
Terms of Substance of the Proposed Rule Change**

The proposed rule change would amend Rule 1804, which governs expiration date exercise procedures for index options.

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

In its filing with the Commission, the self-regulatory organization 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. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

The purpose of this rule change is to modify OCC's Rule 1804, which governs expiration date exercise procedures for index options, to accommodate the fact that European-style options on various volatility indexes ("VIX Options") proposed to be listed by the Chicago Board Options Exchange ("CBOE") will expire on Wednesday rather than on Saturday. OCC is also taking this occasion to simplify the structure of Rule 1804.

CBOE's rule filings with respect to VIX Options provide that VIX Options will expire on a Wednesday. (*See* SR-CBOE-2003-40 and Amendments 1 & 2.) However, as currently drafted, OCC Rule 1804 contemplates that only quarterly index options ("QIX Options") and flexibly structured index options ("Flex Options") will expire on a business day. This proposed rule change would accommodate VIX Options by modifying Rule 1804 to remove descriptions of the day of the week on which certain options expire and to make clear that, regardless of their expiration date, all index options other than Flex Options have the same expiration date exercise procedure.

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The changes OCC now proposes to Rule 1804 would eliminate the redundancies in that rule and eliminate references to Saturday versus business day expirations. Current Rule 1804(a) is eliminated as redundant because revised Rules 1804(b) and (c) clearly establish the ex-by-ex thresholds for index options. It is unnecessary to retain current Rule 1804(a)(2)’s definition of the term “closing price” in respect of index options because revised Rule 1804(a)(1) relies instead on the term “exercise settlement amount,” which is defined in Article XVII of OCC’s By-Laws. Furthermore, the procedures that may be followed by OCC in the event of the unavailability of an index value are proposed to be eliminated from current Rule 1804(a)(2)

because they are set forth in more detail in Article XVII, Section 4 of the By-Laws, which is cross-referenced in new Interpretation and Policy .02. Existing Rule 1804(c), which provides for “true” automatic exercise (i.e., no exception procedures) for FLEX Options is retained without substantive modification. Finally, simplifying and conforming changes are proposed in Rule 801 and the Interpretations and Policies to Rule 1804.

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The proposed changes to OCC’s By-Laws and Rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because they are designed to promote the prompt and accurate clearance and settlement of securities transactions, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.

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

OCC does not believe that the proposed rule change would impose any burden on competition.

**C. 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.

**III. Date of Effectiveness of the Proposed Rule Change**

**and Timing for Commission Action**

OCC requests that the proposed rule change be made effective upon filing pursuant to Section 19(b)(3) of the Exchange Act and Rule 19b-4(f)(4) thereunder because the proposed rule change effects changes in existing services of OCC that (1) do not adversely affect the safeguarding of securities or funds in the custody or control of OCC or for which is its responsible and (2) do not significantly affect the respective rights or obligations of OCC or its clearing members.

OCC currently uses the same expiration date exercise procedures for options that expire on a business day and a Saturday. This proposed rule change merely clarifies this point, eliminates certain redundancies in Rule 1804, and removes language that indicates that only QIX Options and FLEX Options expire on a business day. The proposed rule change does not substantively affect the manner in which OCC safeguards funds or securities or the rights and obligations of clearing members.

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



**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by \_\_\_\_\_.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Secretary

Dated: \_\_\_\_\_