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THE OPTIONS CLEARING  
CORPORATION

OFFICE OF THE  
SECRETARIAT

April 28, 2011

VIA E-MAIL

Mr. David A. Stawick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

**Re: Rule Filing SR-OCC-2011-05 Rule Certification**

Dear Mr. Stawick:

Attached is a copy of the above-referenced rule filing, which The Options Clearing Corporation ("OCC") is submitting pursuant to the self-certification procedures of Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6. This rule filing has been, or is concurrently being, submitted to the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act").

In conformity with the requirements of Regulation 40.6(a)(3), OCC states the following: The text of the rule is set forth at Item 1 of the enclosed filing. The date of implementation of the rule is when the proposed rule filing has been approved by the SEC. No substantive opposing views were expressed to OCC by governing board or committee members, clearing members of OCC, or market participants that were not incorporated into the rule.

OCC hereby certifies that the rules set forth at Item 1 of the enclosed filing comply with the Commodity Exchange Act and the Commission's regulations thereunder.



Mr. David A. Stawick  
Page Two  
April 28, 2011

Should you have any questions regarding this matter, please do not hesitate to contact the undersigned at (312) 322-4802.

Sincerely,

Stephen Szarmack

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Attachments

cc: CFTC Central Region (w/ enclosure)  
525 West Monroe Street, Suite 1100  
Chicago, IL 60661  
Attn: Heidi Rauh

OCC-2011-05 cftc.ltr

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 its by-laws and rules as set forth below. Material proposed to be added is marked by underlining. Material proposed to be deleted is enclosed in brackets.

**THE OPTIONS CLEARING CORPORATION**

**BY-LAWS**

\* \* \*

**Article I**

**Definitions**

\* \* \*

SECTION 1. [No Change]

A. – R. [No Change]

S. (1) – (11) [No Change]

**Settlement Day**

(12) The term “settlement day”, when used in respect of amounts owed by Clearing Members to the Corporation or by the Corporation to Clearing Members to settle Exchange and/or stock loan transactions, means: (i) the first business day following the Corporation’s receipt of a report of matching trade information from the Exchange on which the transaction was effected or a report of a completed stock loan from the Depository, or (ii) with respect to transactions in cleared contracts effected in trading sessions beginning on one calendar day and ending on the next calendar day, the business day after the day on which trading ends, as applicable, unless a different settlement day is specified in the Corporation’s By-Laws, Rules or procedures.

**Settlement Price**

[(12)] (13) [No Change]

**Settlement Time**

~~[(13)](14)~~ The term “settlement time”, when used in respect of a Clearing Member’s obligation to pay the Corporation amounts owed to settle [in respect of an] Exchange and/or stock loan transactions or any other obligations to the Corporation, other than [an Exchange] such transactions settling outside the United States, means 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the settlement day for such Exchange and/or stock loan transaction or other obligation [first business day immediately following the day on which the Corporation receives matching trade information in respect of such transaction by the Exchange on which such transaction was effected].

The term “settlement time”, when used in respect of the Corporation’s obligation to pay a Clearing Member amounts owed to settle Exchange and/or stock loan transactions or any other obligations to a Clearing Member, other than such transactions settling outside the United States, means 1:00 P.M. Central Time (2:00 P.M. Eastern Time) on the settlement day for such Exchange and/or stock loan transaction or other obligation. For Exchange and/or stock loan transactions or other obligations settling outside the United States, the settlement time therefor shall be as specified in the By-Laws, Rules or procedures of the Corporation.

(14) – (26) are renumbered as (15) – (27). [Otherwise, no change to these subsections.]

T. – Z. [No Change]

**THE OPTIONS CLEARING CORPORATION**

**RULES**

\* \* \*

**Chapter V**

**Daily Cash Settlement**

\* \* \*

**Daily Premium and Futures Variation Settlement**

**RULE 502. (a) [No Change]**

(b) Subject to Rule 505, [A]at or before the settlement time on [10:00 A.M. Central Time (11:00 A.M. Eastern Time) of] each business day, the Corporation shall be obligated to pay a Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI) the amount of any net daily premium and variation payments in an account shown to be due from the Corporation to such Clearing Member on the Daily Position Report for such account for such day.

(c) [No Change]

\* \* \*

#### **Daily Escrow Settlement**

**RULE 503. (a) [No Change]**

(b) Subject to Rule 505, [On] at or before the settlement time on [10:00 A.M. Central Time (11:00 A.M. Eastern Time) of] each business day, the Corporation, as agent, shall pay to each Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules) the amount of any net daily premium in an account shown to be due from banks or other depositories to such Clearing Member on any escrow settlement report made available on that day for such account. The Corporation may, if it so elects, net premiums payable to a Clearing Member under this Rule 503(b) against premiums payable by such Clearing Member to the Corporation on the same business day in the same account pursuant to Rule 502, and against any margin deficit in such account on such business day.

(c) - (e) [No Change]

\* \* \*

#### **Extension of Settlements**

##### **Rule 505.**

The Board of Directors, Chairman, Management Vice Chairman or President of the Corporation shall be authorized to extend, to the close of the Federal Reserve Banks' Fedwire Funds Service on a settlement day, any or all times at which the Corporation is obligated to pay a settlement amount to Clearing Members as set forth in the By-Laws, Rules or procedures of the Corporation if a determination is made that an emergency or force majeure condition exists which would make such extension necessary or advisable for the protection of the Corporation or is otherwise in the public interest. Such determination and the reasons therefor shall be promptly reported to the SEC, the CFTC and any other regulatory or supervisory agencies having jurisdiction over the

Corporation, but the effectiveness of the settlement extension shall not be conditioned upon such report. As soon as practicable after such determination has been made, the Corporation shall notify Clearing Members thereof and, in general terms, what procedures shall be taken by the Corporation in connection therewith. Any determination made under this Rule shall be in the sole discretion of the Board of Directors, Chairman, Management Vice Chairman or President of the Corporation, as applicable, and not subject to review. In the event a determination is made by either the Chairman, Management Vice Chairman or President of the Corporation, the Board of Directors shall be notified as soon as practicable of the determination. A report detailing any extension of time for settlement shall be prepared and maintained with the records of the Corporation.

\* \* \*

## Chapter VII

### Cross-Margining with Participating CCOs

\* \* \*

#### Cross-Margining Settlement Procedures

##### Rule 706. (a) [No Change]

(b) If the Cash Settlement Amount is an amount due from the Joint Clearing Member or Pair of Affiliated Clearing Members, the Corporation shall debit such Clearing Member's designated bank account for such amount at or prior to such time as the Corporation may specify. Subject to Rule 505, [I]f the Cash Settlement Amount is due to the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of its or their set of Proprietary X-M Accounts, the Corporation shall pay the Cash Settlement Amount to the designated bank account of such Joint Clearing Member or Pair of Affiliated Clearing Members at or prior to the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)]; provided, however, that no amount shall be paid to such account until the Corporation has determined that the Joint Clearing Member has completed its settlement obligations, or that each of the Pair of Affiliated Clearing Members have completed their settlement obligations, to the Corporation and the Participating CCO(s) in respect of all other accounts carried by it or them at the Corporation and the Participating CCO(s). Subject to Rule 505, [I]f the Cash Settlement Amount is due to the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of its or their set of Non-Proprietary X-M Accounts, the Corporation shall pay the Cash Settlement Amount to the designated bank account of such Joint Clearing Member or Pair of Affiliated Clearing Members at or prior to the settlement time [10:00 A.M.

Central Time (11:00 A.M. Eastern Time)]; provided, however, that no amount shall be paid to such account until the Corporation has determined that the Joint Clearing Member has completed its settlement obligations, or that each of the Pair of Affiliated Clearing Members have completed their settlement obligations, to the Corporation and the Participating CCO(s) in respect of all other accounts (as specified in the Participating CCO Agreement) carried by it or them at the Corporation and the Participating CCO(s).

(c) [No Change]

\* \* \*

## Chapter XV

### Binary Options; Range Options

\* \* \*

#### Settlement of Binary Option Exercises and Range Option Exercises

Rule 1504. (a) - (b) [No Change]

(c) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each exercise settlement date for binary options, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

(d) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each exercise settlement date for binary options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day.



(e) - (f) [No Change]

\* \* \*

## CHAPTER XVII

### Yield-Based Treasury Options

\* \* \*

#### Settlement of Yield-Based Treasury Option Exercises

##### Rule 1704 (a)-(b) [No Change]

(c) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each exercise settlement date for yield-based Treasury options, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

(d) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each exercise settlement date for yield-based Treasury options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium or other amount due to the Corporation) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.

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## CHAPTER XVIII

### Index Options

\* \* \*

#### Settlement of Cash-Settled Option Exercises

##### Rule 1806 (a)-(b) [No Change]

(c) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each exercise settlement date for cash-settled options, each Index Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

(d) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each exercise settlement date for cash-settled options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.

(e) [No Change]

\* \* \*

## CHAPTER XXII

### Stock Loan/Hedge Program

\* \* \*

#### Mark-to-Market Payments

##### Rule 2204 (a) [No Change]

(b) On each business day, the Corporation shall net the mark-to-market payments, if any, owed by and to each Hedge Clearing Member in respect of its stock loan and borrow positions resulting from Stock Loans. At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each business day, each Hedge Clearing Member shall be obligated to pay to the Corporation any net mark-to-market payment amount owed to the Corporation in respect of such positions carried in the Clearing Member's accounts, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of the account identified by the Clearing Member as its account from and to which mark-to-market payments are to be made an amount equal to such net amount, provided that the Corporation may, but shall not be required to, offset against any such net amount any credit balance which may be due from the Corporation in the same account.

(c) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each business day, the Corporation shall be obligated to deposit in the designated bank account of each Hedge Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) any net mark-to-market payment amount owed by the Corporation to the Hedge Clearing Member on such day in respect of its stock loan and stock borrow positions resulting from Stock Loans. From and after such time, full settlement shall be deemed to have been made in respect of mark-to-market payments for such day, and the Corporation shall have no further obligation in respect thereof.

\* \* \*

## CHAPTER XXIIA

### Market Loan Program

\* \* \*

### Mark-to-Market Payments

#### Rule 2204A (a) [No Change]

(b) On each business day, the Corporation shall net the mark-to-market payments, if any, owed by and to each Market Loan Clearing Member in respect of its stock loan and borrow positions resulting from Market Loans. At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each business day, each Market Loan Clearing Member shall be obligated to pay to the Corporation any net mark-to-market payment amount owed to the Corporation in respect of such positions carried in the Market Loan Clearing Member's accounts, and the Corporation shall be authorized to withdraw from the Market Loan Clearing Member's bank account established in respect of the account from and to which mark-to-market payments are to be made an amount equal to such net amount, provided that the Corporation may, but shall not be required to, offset against any such net amount any credit balance which may be due from the Corporation in the same account.

(c) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each business day, the Corporation shall be obligated to deposit in the designated bank account established in respect of each account of each Market Loan Clearing Member (provided the Market Loan Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) any net mark-to-market payment amount owed by the Corporation to the Market Loan Clearing Member on such day in respect of its stock loan and borrow positions resulting from Market Loans. From and after such time, full settlement shall be deemed to have been made in respect of mark-to-market payments for such day, and the Corporation shall have no further obligation in respect thereof.

\* \* \*

CHAPTER XXIII

Cash-Settled Foreign Currency Options

\* \* \*

Settlement of Cash-Settled Foreign Currency Option Exercises

Rule 2305 (a)-(b) [No Change]

(c) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each exercise settlement date for cash-settled foreign currency options, each Cash-Settled Foreign Currency Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same account or any other account.

(d) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each exercise settlement date for cash-settled foreign currency options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day.

(e) [No Change]

\* \* \*

## CHAPTER XXV

### BOUNDs

\* \* \*

#### Dividend Equivalents

##### Rule 2501 (a)-(b) [No Change]

(c) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each dividend payable date for a particular class of BOUNDs, each Clearing Member shall be obligated to pay to the Corporation any net cash dividend equivalent amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net dividend equivalent amount, provided that the Corporation may, but is not required to, offset against any such net dividend equivalent amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

(d) Subject to Rule 505, [A]at or before the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each dividend payable date for a particular class of BOUNDs, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules, and has deposited the full amount of any net daily premium due to the Corporation under Rule 502 and any other amount due to the Corporation) the net cash dividend equivalent amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. From and after such time, full settlement shall be deemed to have been made in respect of dividend equivalents, and the Corporation shall have no further obligation in respect thereof. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.

(e) - (f) [No Change]

\* \* \*

**Expiration Settlement for BOUNDS**

**Rule 2503 (a) - (b)(2)**

(b)(3) At or before the settlement time [9:00 A.M. Central Time (10:00 A.M. Eastern Time)] on each cash settlement date for BOUNDS, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in subparagraph (2) of this paragraph for such date, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same account.

(b)(4) Subject to Rule 505, [A]at or prior to the settlement time [10:00 A.M. Central Time (11:00 A.M. Eastern Time)] on each cash settlement date for BOUNDS, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502 and any other amount due to the Corporation) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in subparagraph (2) of this paragraph for such day. From and after such time, full settlement shall be deemed to have been made in respect of such BOUND contracts, and the Corporation shall have no further obligation in respect thereof. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such net settlement amount.

(c) [No Change]

**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 September 28, 2010.

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

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

The purpose of this rule change is to revise OCC's By-Laws and Rules to provide flexibility to the Corporation with respect to its obligations to pay settlement amounts to Clearing Members generally, as well as in emergency situations. The proposed rule amendments modify the current 10:00 a.m. daily deadline for OCC to pay settlement amounts to Clearing Members and impose a new daily deadline of 1:00 p.m. (All times referred to in this filing are Central Time). In addition, in the event that an emergency condition exists, the Board of Directors or an authorized executive officer of the Corporation may extend the Corporation's obligation to pay settlement amounts to Clearing Members beyond the 1:00 p.m. deadline.

Currently, each business day morning, OCC is obligated to collect cash owed from its Clearing Members for the prior day's settlement activity by 9:00 a.m. OCC, in turn, is obligated to pay cash owed to its Clearing Members for the prior day's settlement activity by 10:00 a.m. This one hour window is designed to ensure that OCC has collected all required settlement funds before having to disburse any settlement funds to its Clearing Members. Daily settlement activity includes obligations relating to: (1) the net premium payments arising from the prior day's option purchases and sales, (2) the mark-to-market of futures contracts and stock loan positions, and (3) exercises and assignments of cash-settled option contracts.

OCC's settlement banks routinely approve and are required to honor the associated settlements made by OCC and OCC's Clearing Members within these timeframes. On most business days, the entire bank approval process, which irrevocably obligates each



settlement bank to make settlement, is completed by 8:30 a.m.

Under OCC Rules, a failure by OCC to pay its daily settlement obligations to Clearing Members by 10:00 a.m. would constitute a default. During recent discussions of various potential extreme default and liquidity squeeze scenarios by senior management, including the possible default of one of OCC's largest Clearing Members, OCC analyzed the risk associated with not being able to access immediate liquidity resources in time to meet the 10:00 a.m. deadline. The deadline may be difficult to meet if, for example, OCC learned of a default near the 9:00 a.m. deadline. In such a circumstance, OCC would have only one hour or less (considering time needed to process and communicate information) to access funds necessary to meet the 10:00 a.m. deadline.

OCC's immediate liquidity resources rely heavily upon its \$2.0 billion revolving credit facility (backed by Treasuries held in the Clearing Fund). A one hour advance notice is required prior to a draw being made on the credit facility. Beyond the credit facility, it would likely take more than one hour to raise cash by borrowing against the remaining Clearing Fund Treasuries (*i.e.*, those Treasuries not securing the credit facility), either through tri-party repurchase agreements or a traditional bank loan.

The main benefit of moving the deadline by which the Corporation is required to pay settlement amounts to Clearing Members to 1:00 p.m. is that it allows up to four hours (rather than one) within which OCC can meet its daily settlement requirement, without being required to declare an emergency in order to do so. In addition, based on discussions with our settlement banks, OCC believes that notwithstanding a change in the current 10:00 a.m. deadline

to 1:00 p.m., the settlement banks will continue the current practice of approving settlements as soon as they can make a credit determination (*i.e.*, confirm present funds or extend credit to the customer) and process our payment requests, tasks that are typically completed by 8:30 a.m.

OCC also has incorporated in the rules authority to extend the deadline for the Corporation to pay settlement amounts to Clearing Members to the close of the Federal Reserve Banks' Fedwire Funds Service on a settlement day, if necessary, during an emergency situation.<sup>1</sup> Such an extension is consistent with the emergency authority other clearinghouses have to deal with late settlement scenarios. The rule amendments authorize the Board of Directors, Chairman, Management Vice Chairman or President of the Corporation to delay settlement beyond 1:00 p.m. in emergency situations. The rule amendments authorize the named officers to take such action because the decision may need to be made under time constraints such that the Board (or even the Membership/Risk Committee) could not be convened in time to take the necessary action.<sup>2</sup> OCC anticipates that the emergency authority would be used infrequently, if ever. Under proposed Rule 505, such authority could only be used upon a determination by the Board or an authorized officer that extension of the settlement time is necessary or advisable for the protection of the Corporation or otherwise in the public interest. In the event that the emergency authority is exercised, a number of protections are built into the process. For example, the determination and the reasons for the extension will be promptly reported to the SEC, the CFTC and any other regulatory or supervisory authorities having jurisdiction over

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<sup>1</sup> In the event that OCC is unable to pay settlement amounts to Clearing Members by the close of the Fedwire Funds Service on a settlement day due to an emergency or force majeure condition, OCC will seek appropriate relief from the regulatory or supervisory authorities having jurisdiction over OCC.

<sup>2</sup> Similar authority is provided to the OCC Chairman (or the Board of Directors) to summarily suspend a clearing member. See OCC Rule 1102.

OCC. In addition, Clearing Members will be notified of the extension and a report outlining the emergency actions will be maintained in the records of the Corporation.

For drafting clarity and economy, the specific settlement times have been removed from the applicable rules and a new definition of “settlement day” has been created and a revised definition of “settlement time” has been inserted in Article I of the By-Laws.

\* \* \*

The proposed changes are consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), because they are designed to promote the prompt and accurate clearance and settlement of security transactions, and generally protect investors and the public interest, by giving OCC flexibility to make settlement payments to its Clearing Members in a timely manner during normal and abnormal market conditions. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

**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**

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)**

Not applicable.

**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**

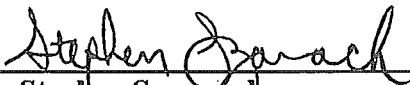
By:   
\_\_\_\_\_  
**Stephen Szarmack**  
**Vice President and Associate**  
**General Counsel**

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_ ; File No. SR-OCC-2011-01

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By  
The Options Clearing Corporation

Provides Flexibility to OCC with  
Respect to its Obligation to Pay  
Settlement Amounts to Clearing  
Members Generally, as well as in  
Emergency Situations

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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 \_\_\_\_\_, 2011, 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 provide flexibility to the OCC with respect to its obligations to pay settlement amounts to Clearing Members generally, as well as in emergency situations.

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 revise OCC's By-Laws and Rules to provide flexibility to the Corporation with respect to its obligations to pay settlement amounts to Clearing Members generally, as well as in emergency situations. The proposed rule amendments modify the current 10:00 a.m. daily deadline for OCC to pay settlement amounts to Clearing Members and impose a new daily deadline of 1:00 p.m. (All times referred to in this filing are Central Time). In addition, in the event that an emergency condition exists, the Board of Directors or an authorized executive officer of the Corporation may extend the Corporation's obligation to pay settlement amounts to Clearing Members beyond the 1:00 p.m. deadline.

Currently, each business day morning, OCC is obligated to collect cash owed from its Clearing Members for the prior day's settlement activity by 9:00 a.m. OCC, in turn, is obligated to pay cash owed to its Clearing Members for the prior day's settlement activity by 10:00 a.m. This one hour window is designed to ensure that OCC has collected all required

settlement funds before having to disburse any settlement funds to its Clearing Members. Daily settlement activity includes obligations relating to: (1) the net premium payments arising from the prior day's option purchases and sales, (2) the mark-to-market of futures contracts and stock loan positions, and (3) exercises and assignments of cash-settled option contracts.

OCC's settlement banks routinely approve and are required to honor the associated settlements made by OCC and OCC's Clearing Members within these timeframes. On most business days, the entire bank approval process, which irrevocably obligates each settlement bank to make settlement, is completed by 8:30 a.m.

Under OCC Rules, a failure by OCC to pay its daily settlement obligations to Clearing Members by 10:00 a.m. would constitute a default. During recent discussions of various potential extreme default and liquidity squeeze scenarios by senior management, including the possible default of one of OCC's largest Clearing Members, OCC analyzed the risk associated with not being able to access immediate liquidity resources in time to meet the 10:00 a.m. deadline. The deadline may be difficult to meet if, for example, OCC learned of a default near the 9:00 a.m. deadline. In such a circumstance, OCC would have only one hour or less (considering time needed to process and communicate information) to access funds necessary to meet the 10:00 a.m. deadline.

OCC's immediate liquidity resources rely heavily upon its \$2.0 billion revolving credit facility (backed by Treasuries held in the Clearing Fund). A one hour advance notice is required prior to a draw being made on the credit facility. Beyond the credit facility, it would likely take more than one hour to raise cash by borrowing against the remaining Clearing Fund



Treasuries (*i.e.*, those Treasuries not securing the credit facility), either through tri-party repurchase agreements or a traditional bank loan.

The main benefit of moving the deadline by which the Corporation is required to pay settlement amounts to Clearing Members to 1:00 p.m. is that it allows up to four hours (rather than one) within which OCC can meet its daily settlement requirement, without being required to declare an emergency in order to do so. In addition, based on discussions with our settlement banks, OCC believes that notwithstanding a change in the current 10:00 a.m. deadline to 1:00 p.m., the settlement banks will continue the current practice of approving settlements as soon as they can make a credit determination (*i.e.*, confirm present funds or extend credit to the customer) and process our payment requests, tasks that are typically completed by 8:30 a.m.

OCC also has incorporated in the rules authority to extend the deadline for the Corporation to pay settlement amounts to Clearing Members to the close of the Federal Reserve Banks' Fedwire Funds Service on a settlement day, if necessary, during an emergency situation.<sup>1</sup> Such an extension is consistent with the emergency authority other clearinghouses have to deal with late settlement scenarios. The rule amendments authorize the Board of Directors, Chairman, Management Vice Chairman or President of the Corporation to delay settlement beyond 1:00 p.m. in emergency situations. The rule amendments authorize the named officers to take such action because the decision may need to be made under time constraints such that the Board (or even the Membership/Risk Committee) could not be convened in time to take the

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<sup>1</sup> In the event that OCC is unable to pay settlement amounts to Clearing Members by the close of the Fedwire Funds Service on a settlement day due to an emergency or force majeure condition, OCC will seek appropriate relief from the regulatory or supervisory authorities having jurisdiction over OCC.

necessary action.<sup>2</sup> OCC anticipates that the emergency authority would be used infrequently, if ever. Under proposed Rule 505, such authority could only be used upon a determination by the Board or an authorized officer that extension of the settlement time is necessary or advisable for the protection of the Corporation or otherwise in the public interest. In the event that the emergency authority is exercised, a number of protections are built into the process. For example, the determination and the reasons for the extension will be promptly reported to the SEC, the CFTC and any other regulatory or supervisory authorities having jurisdiction over OCC. In addition, Clearing Members will be notified of the extension and a report outlining the emergency actions will be maintained in the records of the Corporation.

For drafting clarity and economy, the specific settlement times have been removed from the applicable rules and a new definition of “settlement day” has been created and a revised definition of “settlement time” has been inserted in Article I of the By-Laws.

\* \* \*

The proposed changes are consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), because they are designed to promote the prompt and accurate clearance and settlement of security transactions, and generally protect investors and the public interest, by giving OCC flexibility to make settlement payments to its Clearing Members in a timely manner during normal and abnormal market conditions. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

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<sup>2</sup> Similar authority is provided to the OCC Chairman (or the Board of Directors) to summarily suspend a clearing member. See OCC Rule 1102.

**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**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date 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 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](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2011-01 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-2011-01. 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 Web site (<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 inspection and copying in the Commission's Public Reference Section, 100F Fifth Street, N.E., Washington, D.C. 20549-1090. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory

organization. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OCC-2011-01 in the caption above and should be submitted on or before [insert date 21 days from publication in the Federal Register.] \_\_\_\_\_.

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

Secretary

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