



August 15, 2013

**VIA ELECTRONIC MAIL**

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

**Re: Rule Filing SR-OCC-2013-14 (SR-OCC-2013-805) Rule Certification**

Dear Secretary Jurgens:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Commodity Futures Trading Commission Regulation (“CFTC”) 40.6, enclosed is a copy of the above-referenced rule filing submitted by The Options Clearing Corporation (“OCC”). The date of implementation of the rule is at least 10 business days following receipt of the rule filing by the CFTC or the date the proposed rule is approved by the Securities and Exchange Commission (the “SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (the “Exchange Act”). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act.

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

**Explanation and Analysis**

The purpose of the proposed rule change is to provide OCC with discretion with regard to granting or not granting margin credit to a clearing member. OCC currently may withhold margin credit from all clearing members with respect to a specific security. OCC proposes to address the risk presented by concentrated positions of securities posted as margin by particular clearing members by withholding margin credit from such clearing member’s accounts. OCC proposes to enhance its ability to limit its risk exposure to a concentrated position of equity securities posted as margin by a specific clearing member by providing OCC with the discretion to disregard, for the purposes of granting margin credit, some or all of the otherwise eligible equity securities posted as margin. In addition, the proposed rule change is designed to provide OCC with discretion to make exceptions to proposed Interpretation and Policy .14 with respect to a specific clearing member. Accordingly, OCC may allow margin credit for an otherwise ineligible security for a specific clearing member in situations in which OCC determines that such security serves as a hedge to positions in cleared contracts in the same account of such clearing member.

Rule 604 lists the acceptable types of assets that clearing members may post with OCC to satisfy their margin requirements under Rule 601, including equity securities, and establishes the eligibility criteria for such assets. Equity securities are the most common form of margin assets posted by clearing members and, under Rule 601, are included in OCC's STANS margining system for the purposes of valuing such equity securities and determining on a portfolio basis a clearing member's margin obligation to OCC. Interpretation and Policy .14 to Rule 604 allows OCC to disapprove a security as margin collateral for all clearing members based on a consideration of the factors set forth in the interpretation, including number of outstanding shares, number of outstanding shareholders and overall trading volume. The STANS system currently takes into account the risk to a portfolio presented by fluctuations in the market price of concentrated security positions by identifying the two individual securities whose adverse price movements would result in the largest losses in each account and applying additional margin requirements to an account based on those losses if appropriate. However, this test does not evaluate a large equity securities position in relation to the securities position's average daily trade volume, which would be relevant if OCC were required to liquidate the position. OCC has determined that in the event of a clearing member liquidation, OCC may be exposed to concentration risk arising from a large equity security position deposited or pledged as margin by a particular clearing member. Depending on the relationship between the average daily trading volume of a particular security and the number of outstanding shares of such security deposited by a clearing member as margin, it is possible that the listed equities markets may not be able to quickly absorb the equity securities OCC seeks to sell, or without an appreciable negative price impact, in the event OCC needs to liquidate the clearing member's accounts. This risk is greatest when the number of shares being sold is large and the average daily trading volume is low. Neither the STANS system nor Rule 604 explicitly addresses this type of concentration risk.

To address concentration risk arising from the potential need to liquidate a particular clearing member's margin collateral, OCC proposes to expand its discretion under Interpretation and Policy .14 to limit, in OCC's discretion, the margin credit granted to an individual clearing member account which maintains a concentrated equity securities position by disregarding some or all of the otherwise eligible equity securities posted as margin based on an assessment of specific factors listed in Interpretation and Policy .14. OCC considers an equity security's average daily trading volume and the number of shares a clearing member deposited as margin to be the two most significant factors when making a decision to limit margin credit due to concentration risk. In addition, OCC proposes to amend Interpretation and Policy .14 so that it may grant margin credit when otherwise ineligible securities are deposited as margin collateral if such ineligible securities act as a hedge against cleared contracts held in the same account. For example, if a clearing member deposits otherwise ineligible equity securities as margin, OCC may nevertheless deem such ineligible securities to be acceptable margin collateral to the extent that the position is a hedge against a short position in its cleared contracts, because a decline in the value of the securities that serve as a hedge would be wholly or partially offset by an increase in value in the hedged position thereby reducing or eliminating the concentration risk. In such a situation, OCC will limit the margin credit granted to the lesser of a multiple of the daily trading

volume or the “delta equivalent position”<sup>1</sup> for the particular equity security, taking into account the hedging position.<sup>2</sup>

OCC staff has been monitoring concentrated securities positions and assessing the impact of the proposed change described in this rule filing. OCC believes that, with OCC’s assistance by supplying additional information to clearing members, clearing members will be able to accommodate the proposed changes without undue hardship. Accordingly, after receiving regulatory approval for the proposed rule change, OCC will implement the change and work on an “as needed” manual basis with clearing members that are impacted until the limits are imposed systematically and the distribution of the applicable files and reports to clearing members is automated.

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

**Risk Management.** OCC believes that by implementing the proposed rule change it will be better able to manage the risks associated with discharging its responsibilities, through the use of appropriate procedures, with respect to risk management, as set forth in the DCO Core Principles. By providing OCC with the ability to adjust specific clearing members’ margin

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<sup>1</sup> The “delta equivalent position” is the value of a securities position that takes into account the position’s use as a hedge against cleared option or futures positions. This value is calculated using the “delta” of the option or futures contract, which is the ratio between the theoretical change in the price of an underlying asset to the corresponding change in the price of the options or futures contract. Thus, delta measures the sensitivity of an options or futures contract price to changes in the price of the underlying asset. For example, a delta of +0.7 means that for every \$1 increase in the price of the underlying stock, the price of a call option will increase by \$0.70. Delta for an option or future can be expressed in shares of the underlying asset. For example, a standard put option with a delta of -.45 would have a delta of -45 shares, because the unit of trading is 100 shares.

<sup>2</sup> Assume, for example, an average daily trade volume of 250 shares, a threshold of 2 times the average daily trade volume, and a delta of -300 shares for the options on a particular security in a particular account. A position of 700 shares that did not hedge any short options or futures would receive credit for only 500 shares (*i.e.*, 2 times the average daily trade volume). If the net long position in the account, as adjusted for the delta of short option and futures positions, were only 400, credit would be given for the entire 700 shares since the delta equivalent position is below the 500 share threshold. However, if the option delta were +300, the net long position would be 1000, and credit would only be given for 500 shares because the delta equivalent position would exceed the 500 share threshold.

Melissa Jurgens  
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credits, OCC will limit its clearing member concentration risk and, accordingly, its exposure to potential defaults by its clearing members. Such adjustment could be either granting or not granting margin credit to a clearing member with respect to certain securities posted as margin.

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,



Stephen Szarmack  
Vice President & Associate General Counsel

Enclosure

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) \*

Pilot       Extension of Time Period for Commission Action \*       Date Expires \*

Rule  
 19b-4(f)(1)       19b-4(f)(4)  
 19b-4(f)(2)       19b-4(f)(5)  
 19b-4(f)(3)       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)       Section 3C(b)(2)

Exhibit 2 Sent As Paper Document       Exhibit 3 Sent As Paper Document

**Description**

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

The purpose of the proposed rule change is to provide OCC with discretion with regard to granting or not granting margin credit to a clearing member.

**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 \* Stephen      Last Name \* Szarmack  
 Title \* Vice President and Associate General Counsel  
 E-mail \* sszarmack@theocc.com  
 Telephone \* (312) 322-4802      Fax (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 08/15/2013      Assistant Secretary  
 By Scott Kalish

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.

Persona Not Validated - 1374606209118,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS 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**

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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**

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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”) proposes to amend an existing Interpretation and Policy so that OCC has discretion to disapprove as margin collateral for a particular clearing member, shares of an otherwise eligible security held as margin. In addition, the proposal allows OCC to approve as margin collateral for a particular clearing member, shares of an equity security otherwise disapproved by OCC based on certain factors including, but not limited to, the extent to which the security serves as a hedge for such clearing member. Material proposed to be added to OCC’s Rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets.

**THE OPTIONS CLEARING CORPORATION****RULES**

\* \* \*

**CHAPTER VI****MARGINS**

\* \* \*

**Form of Margin Assets**

RULE 604. [no change]

***...Interpretations and Policies*****.01 – .13** [no change]

**.14** The Corporation may in its discretion determine that a security which meets the criteria listed in Rule 604(b) is nevertheless disapproved as margin collateral with respect to all accounts of all Clearing Members, and therefore not grant margin credit, [if it determines that other factors warrant such a result. In making this determination, the Corporation may consider] based on such factors as (i) trading volume, (ii) number of outstanding shareholders, (iii) number of outstanding shares, (iv) [the number of securities held which relate to a single issuer or an affiliated group of companies, (vii)]



volatility and liquidity and (v[iii]) any other factors the Corporation determines are relevant. In addition, the Corporation may in its discretion determine that an equity security meeting the criteria of Rule 604(b)(4) is disapproved as margin collateral with respect to some or all of the shares of such equity security held by a particular Clearing Member based on the foregoing factors and additional considerations including, but not limited to, the extent to which such security is held in large quantities in such Clearing Member's account taking into consideration the other factors. Conversely, the Corporation may determine in its discretion that some or all of the shares of an equity security meeting the criteria of Rule 604(b)(4) that has otherwise been disapproved pursuant to this Interpretation .14 is nevertheless acceptable as margin collateral with respect to particular Clearing Members based on other factors including, but not limited to, the extent to which such equity security serves as a hedge with respect to cleared contracts held in the same account.

.15 [no change]

\* \* \*

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

The changes that are the subject of this proposed rule change were approved by OCC's Board of Directors at a meeting held on March 7, 2013. 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 the proposed rule change is to provide OCC with discretion with regard to granting or not granting margin credit to a clearing member. OCC currently may withhold margin credit from all clearing members with respect to a specific security. OCC proposes to address the risk presented by concentrated positions of securities posted as margin by particular clearing members by withholding margin credit from such clearing member's accounts. OCC proposes to enhance its ability to

limit its risk exposure to a concentrated position of equity securities posted as margin by a specific clearing member by providing OCC with the discretion to disregard, for the purposes of granting margin credit, some or all of the otherwise eligible equity securities posted as margin. In addition, the proposed rule change is designed to provide OCC with discretion to make exceptions to proposed Interpretation and Policy .14 with respect to a specific clearing member. Accordingly, OCC may allow margin credit for an otherwise ineligible security for a specific clearing member in situations in which OCC determines that such security serves as a hedge to positions in cleared contracts in the same account of such clearing member.

Rule 604 lists the acceptable types of assets that clearing members may post with OCC to satisfy their margin requirements under Rule 601, including equity securities, and establishes the eligibility criteria for such assets. Equity securities are the most common form of margin assets posted by clearing members and, under Rule 601, are included in OCC's STANS margining system for the purposes of valuing such equity securities and determining on a portfolio basis a clearing member's margin obligation to OCC. Interpretation and Policy .14 to Rule 604 allows OCC to disapprove a security as margin collateral for all clearing members based on a consideration of the factors set forth in the interpretation, including number of outstanding shares, number of outstanding shareholders and overall trading volume. The STANS system currently takes into account the risk to a portfolio presented by fluctuations in the market price of concentrated security positions by identifying the two individual securities whose adverse price movements would result in the largest losses in each account and applying additional margin requirements to an account based on those losses if appropriate.

However, this test does not evaluate a large equity securities position in relation to the securities position's average daily trade volume, which would be relevant if OCC were required to liquidate the position. OCC has determined that in the event of a clearing member liquidation, OCC may be exposed to concentration risk arising from a large equity security position deposited or pledged as margin by a particular clearing member. Depending on the relationship between the average daily trading volume of a particular security and the number of outstanding shares of such security deposited by a clearing member as margin, it is possible that the listed equities markets may not be able to quickly absorb the equity securities OCC seeks to sell, or without an appreciable negative price impact, in the event OCC needs to liquidate the clearing member's accounts. This risk is greatest when the number of shares being sold is large and the average daily trading volume is low. Neither the STANS system nor Rule 604 explicitly addresses this type of concentration risk.

To address concentration risk arising from the potential need to liquidate a particular clearing member's margin collateral, OCC proposes to expand its discretion under Interpretation and Policy .14 to limit, in OCC's discretion, the margin credit granted to an individual clearing member account which maintains a concentrated equity securities position by disregarding some or all of the otherwise eligible equity securities posted as margin based on an assessment of specific factors listed in Interpretation and Policy .14. OCC considers an equity security's average daily trading volume and the number of shares a clearing member deposited as margin to be the two most significant factors when making a decision to limit margin credit due to concentration risk. In addition, OCC proposes to amend Interpretation and Policy .14 so that it may grant

margin credit when otherwise ineligible securities are deposited as margin collateral if such ineligible securities act as a hedge against cleared contracts held in the same account. For example, if a clearing member deposits otherwise ineligible equity securities as margin, OCC may nevertheless deem such ineligible securities to be acceptable margin collateral to the extent that the position is a hedge against a short position in its cleared contracts, because a decline in the value of the securities that serve as a hedge would be wholly or partially offset by an increase in value in the hedged position thereby reducing or eliminating the concentration risk. In such a situation, OCC will limit the margin credit granted to the lesser of a multiple of the daily trading volume or the “delta equivalent position”<sup>1</sup> for the particular equity security, taking into account the hedging position.<sup>2</sup>

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<sup>1</sup> The “delta equivalent position” is the value of a securities position that takes into account the position’s use as a hedge against cleared option or futures positions. This value is calculated using the “delta” of the option or futures contract, which is the ratio between the theoretical change in the price of an underlying asset to the corresponding change in the price of the options or futures contract. Thus, delta measures the sensitivity of an options or futures contract price to changes in the price of the underlying asset. For example, a delta of +0.7 means that for every \$1 increase in the price of the underlying stock, the price of a call option will increase by \$0.70. Delta for an option or future can be expressed in shares of the underlying asset. For example, a standard put option with a delta of -.45 would have a delta of -45 shares, because the unit of trading is 100 shares.

<sup>2</sup> Assume, for example, an average daily trade volume of 250 shares, a threshold of 2 times the average daily trade volume, and a delta of -300 shares for the options on a particular security in a particular account. A position of 700 shares that did not hedge any short options or futures would receive credit for only 500 shares (*i.e.*, 2 times the average daily trade volume). If the net long position in the account, as adjusted for the delta of short option and futures positions, were only 400, credit would be given for the entire 700 shares since the delta equivalent position is below the 500 share threshold. However, if the option delta were +300, the net long position would be 1000, and credit would only be given for

OCC staff has been monitoring concentrated securities positions and assessing the impact of the proposed change described in this rule filing. OCC believes that, with OCC's assistance by supplying additional information to clearing members, clearing members will be able to accommodate the proposed changes without undue hardship. Accordingly, after receiving regulatory approval for the proposed rule change, OCC will implement the change and work on an "as needed" manual basis with clearing members that are impacted until the limits are imposed systematically and the distribution of the applicable files and reports to clearing members is automated.

\* \* \*

The proposed rule change is consistent with the purposes and requirements of Section 17A(b)(3)(F)<sup>3</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>4</sup> and the rules and regulations thereunder, including Rules 17Ad-22(b)(1),<sup>5</sup> 17Ad-22(b)(2)<sup>6</sup> and 17Ad-22(d)(2)<sup>7</sup> for the following reasons. It provides for the prompt and accurate clearance and settlement of securities transactions and the protection of investors and the public interest by improving OCC's risk management process related to deposits as margin collateral of concentrated equity securities positions by individual clearing members. The proposed rule change enhances OCC's ability to limit its risk exposure to potential losses from defaults by such clearing members under normal market conditions through the use of risk-based parameters and encourages clearing members to have

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500 shares because the delta equivalent position would exceed the 500 share threshold.

<sup>3</sup> 15 U.S.C. § 78q-1(b)(3)(F).

<sup>4</sup> 15 U.S.C. § 78a et seq.

<sup>5</sup> 17 C.F.R. 240.17Ad-22(b)(1).

<sup>6</sup> 17 C.F.R. 240.17Ad-22(b)(2).

<sup>7</sup> 17 C.F.R. 240.17Ad-22(d)(2).

sufficient financial resources to meet their obligations to OCC. The proposed rule change is not inconsistent with any existing OCC By-Laws or Rules, including those 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 a burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.<sup>8</sup> The proposed change will be applied equally to every clearing member based on all the factors listed in proposed Interpretation and Policy .14 and would encourage clearing members to avoid depositing concentrated equity security positions as margin, particularly where the average daily trading volume of the deposited security is low, while taking into account the use of equity securities as a hedge against short positions in cleared options or futures contracts. By limiting margin credit granted as proposed, OCC will reduce its risk exposure to a concentrated position of equity securities posted as margin by any clearing member. Accordingly, the proposed rule change contributes to the goal of OCC's financial stability in the event of clearing member default, rendering not unreasonable or inappropriate any burden on competition that the changes could be regarded as imposing.

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<sup>8</sup> 15 U.S.C. § 78q-1(b)(3)(I).

**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 specified in Section 19(b)(2) of the Act.<sup>9</sup>

**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.

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<sup>9</sup> 15 U.S.C. § 78s(b)(2).

**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.



**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:   
**Stephen Szarmack**  
**Vice President and**  
**Associate General Counsel**

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-OCC-2013-14)

August 15, 2013

Clearing Agency; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend an Existing Interpretation and Policy so that OCC has Discretion to Disapprove as Margin Collateral for a Particular Clearing Member, Shares of an Otherwise Eligible Security Held as Margin.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on August 15, 2013, 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

OCC proposes to amend an existing Interpretation and Policy so that OCC has discretion to disapprove as margin collateral for a particular clearing member, shares of an otherwise eligible security held as margin.

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

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 C.F.R. 240.19b-4.

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

The purpose of the proposed rule change is to provide OCC with discretion with regard to granting or not granting margin credit to a clearing member. OCC currently may withhold margin credit from all clearing members with respect to a specific security. OCC proposes to address the risk presented by concentrated positions of securities posted as margin by particular clearing members by withholding margin credit from such clearing member's accounts. OCC proposes to enhance its ability to limit its risk exposure to a concentrated position of equity securities posted as margin by a specific clearing member by providing OCC with the discretion to disregard, for the purposes of granting margin credit, some or all of the otherwise eligible equity securities posted as margin. In addition, the proposed rule change is designed to provide OCC with discretion to make exceptions to proposed Interpretation and Policy .14 with respect to a specific clearing member. Accordingly, OCC may allow margin credit for an otherwise ineligible security for a specific clearing member in situations in which OCC determines that such security serves as a hedge to positions in cleared contracts in the same account of such clearing member.

Rule 604 lists the acceptable types of assets that clearing members may post with OCC to satisfy their margin requirements under Rule 601, including equity securities, and establishes the eligibility criteria for such assets. Equity securities are the most common form of margin assets posted by clearing members and, under Rule 601, are included in OCC's STANS

margin system for the purposes of valuing such equity securities and determining on a portfolio basis a clearing member's margin obligation to OCC. Interpretation and Policy .14 to Rule 604 allows OCC to disapprove a security as margin collateral for all clearing members based on a consideration of the factors set forth in the interpretation, including number of outstanding shares, number of outstanding shareholders and overall trading volume. The STANS system currently takes into account the risk to a portfolio presented by fluctuations in the market price of concentrated security positions by identifying the two individual securities whose adverse price movements would result in the largest losses in each account and applying additional margin requirements to an account based on those losses if appropriate. However, this test does not evaluate a large equity securities position in relation to the securities position's average daily trade volume, which would be relevant if OCC were required to liquidate the position. OCC has determined that in the event of a clearing member liquidation, OCC may be exposed to concentration risk arising from a large equity security position deposited or pledged as margin by a particular clearing member. Depending on the relationship between the average daily trading volume of a particular security and the number of outstanding shares of such security deposited by a clearing member as margin, it is possible that the listed equities markets may not be able to quickly absorb the equity securities OCC seeks to sell, or without an appreciable negative price impact, in the event OCC needs to liquidate the clearing member's accounts. This risk is greatest when the number of shares being sold is large and the average daily trading volume is low. Neither the STANS system nor Rule 604 explicitly addresses this type of concentration risk.

To address concentration risk arising from the potential need to liquidate a particular clearing member's margin collateral, OCC proposes to expand its discretion under Interpretation and Policy .14 to limit, in OCC's discretion, the margin credit granted to an individual clearing member account which maintains a concentrated equity securities position by disregarding some or all of the otherwise eligible equity securities posted as margin based on an assessment of specific factors listed in Interpretation and Policy .14. OCC considers an equity security's average daily trading volume and the number of shares a clearing member deposited as margin to be the two most significant factors when making a decision to limit margin credit due to concentration risk. In addition, OCC proposes to amend Interpretation and Policy .14 so that it may grant margin credit when otherwise ineligible securities are deposited as margin collateral if such ineligible securities act as a hedge against cleared contracts held in the same account. For example, if a clearing member deposits otherwise ineligible equity securities as margin, OCC may nevertheless deem such ineligible securities to be acceptable margin collateral to the extent that the position is a hedge against a short position in its cleared contracts, because a decline in the value of the securities that serve as a hedge would be wholly or partially offset by an increase in value in the hedged position thereby reducing or eliminating the concentration risk. In such a situation, OCC will limit the margin credit granted to the lesser of a multiple of the daily trading volume or the "delta equivalent position"<sup>3</sup> for the particular equity security, taking into account the hedging position.<sup>4</sup>

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<sup>3</sup> The "delta equivalent position" is the value of a securities position that takes into account the position's use as a hedge against cleared option or futures positions. This value is calculated using the "delta" of the option or futures contract, which is the ratio between the theoretical change in the price of an underlying asset to the corresponding change in the price of the options or futures contract. Thus, delta measures the sensitivity of an

OCC staff has been monitoring concentrated securities positions and assessing the impact of the proposed change described in this rule filing. OCC believes that, with OCC's assistance by supplying additional information to clearing members, clearing members will be able to accommodate the proposed changes without undue hardship. Accordingly, after receiving regulatory approval for the proposed rule change, OCC will implement the change and work on an "as needed" manual basis with clearing members that are impacted until the limits are imposed systematically and the distribution of the applicable files and reports to clearing members is automated.

The proposed rule change is consistent with the purposes and requirements of Section 17A(b)(3)(F)<sup>5</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>6</sup> and the rules and regulations thereunder, including Rules 17Ad-22(b)(1),<sup>7</sup> 17Ad-22(b)(2)<sup>8</sup> and 17Ad-22(d)(2)<sup>9</sup> for

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options or futures contract price to changes in the price of the underlying asset. For example, a delta of +0.7 means that for every \$1 increase in the price of the underlying stock, the price of a call option will increase by \$0.70. Delta for an option or future can be expressed in shares of the underlying asset. For example, a standard put option with a delta of -.45 would have a delta of -45 shares, because the unit of trading is 100 shares.

<sup>4</sup> Assume, for example, an average daily trade volume of 250 shares, a threshold of 2 times the average daily trade volume, and a delta of -300 shares for the options on a particular security in a particular account. A position of 700 shares that did not hedge any short options or futures would receive credit for only 500 shares (*i.e.*, 2 times the average daily trade volume). If the net long position in the account, as adjusted for the delta of short option and futures positions, were only 400, credit would be given for the entire 700 shares since the delta equivalent position is below the 500 share threshold. However, if the option delta were +300, the net long position would be 1000, and credit would only be given for 500 shares because the delta equivalent position would exceed the 500 share threshold.

<sup>5</sup> 15 U.S.C. § 78q-1(b)(3)(F).

<sup>6</sup> 15 U.S.C. § 78a et seq.

<sup>7</sup> 17 C.F.R. 240.17Ad-22(b)(1).

the following reasons. It provides for the prompt and accurate clearance and settlement of securities transactions and the protection of investors and the public interest by improving OCC's risk management process related to deposits as margin collateral of concentrated equity securities positions by individual clearing members. The proposed rule change enhances OCC's ability to limit its risk exposure to potential losses from defaults by such clearing members under normal market conditions through the use of risk-based parameters and encourages clearing members to have sufficient financial resources to meet their obligations to OCC. The proposed rule change is not inconsistent with any existing OCC By-Laws or Rules, including those proposed to be amended.

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

OCC does not believe that the proposed rule change would impose a burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.<sup>10</sup> The proposed change will be applied equally to every clearing member based on all the factors listed in proposed Interpretation and Policy .14 and would encourage clearing members to avoid depositing concentrated equity security positions as margin, particularly where the average daily trading volume of the deposited security is low, while taking into account the use of equity securities as a hedge against short positions in cleared options or futures contracts. By limiting margin credit granted as proposed, OCC will reduce its risk exposure to a concentrated position of equity securities posted as margin by any clearing member. Accordingly, the proposed rule

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<sup>8</sup> 17 C.F.R. 240.17Ad-22(b)(2).

<sup>9</sup> 17 C.F.R. 240.17Ad-22(d)(2).

<sup>10</sup> 15 U.S.C. § 78q-1(b)(3)(I).

change contributes to the goal of OCC's financial stability in the event of clearing member default, rendering not unreasonable or inappropriate any burden on competition that the changes could be regarded as imposing.

(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.

The clearing agency shall post notice on its website of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.



IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commissions Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2013-14 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2013-14. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00

p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <http://www.theocc.com/about/publications/bylaws.jsp>

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-2013-14 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.<sup>11</sup>

Kevin M. O'Neill  
Deputy Secretary

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

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

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<sup>11</sup> C.F.R. 200.30-3(a)(12).