

RECEIVED
C.F.T.C.

2007 DEC -7 PM 4: 22

OFF. OF THE SECRETARIAT



THE OPTIONS CLEARING
CORPORATION

December 7, 2007

VIA E-MAIL

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

Re: Rule Filing SR-OCC-2007-16 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 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 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 rule set forth at Item 1 of the enclosed filing complies with the Commodity Exchange Act and the Commission's regulations thereunder.

JEAN M. CAWLEY

SENIOR VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

ONE N. WACKER DRIVE, SUITE 500 CHICAGO, ILLINOIS 60606 TEL 312.322.6269 FAX 312.322.6280

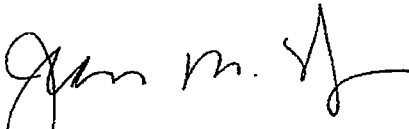
JCAWLEY@THEOCC.COM WWW.OPTIONSCLEARING.COM



Mr. David A. Stawick
Page Two
December 7, 2007

Should you have any questions regarding this matter, please do not hesitate to contact the undersigned at (312) 322-6269.

Sincerely,



Jean M. Cawley

Attachments

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

2007-16 cftc.ltr

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

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

Item 1. Text of the Proposed Rule Change

The Options Clearing Corporation ("OCC") proposes to amend Rules 205, 801 and 805 as described below. Underlining indicates material proposed to be added and brackets indicate material proposed to be deleted.

THE OPTIONS CLEARING CORPORATION

RULES

CHAPTER II

Miscellaneous Requirements

Submission of Items to Corporation

RULE 205. (a) - (c) [unchanged]

(d) If unusual or unforeseen conditions (including but not limited to power failures, [or] equipment or system malfunctions, or operational or other problems) experienced by a Clearing Member, a Clearing Member's facilities manager, an Exchange, securities futures market, futures market or international market or the Corporation prevent a Clearing Member from submitting any instruction, notice, report, data, or other item to the Corporation via electronic data entry on a timely basis, the Corporation may in its discretion (i) require the Clearing Member to submit the item by other means, and/or (ii) extend the applicable cut-off time by such period as the Corporation deems reasonable, practicable, and equitable under the circumstances[. P]; provided, however, that cut-off times for submission of exercise notices at expiration are governed by Rule 805, and by Article VI, Sec. 18 of the By-Laws.

CHAPTER VIII
Exercise and Assignment
Exercise of Options

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

(a) – (c) [unchanged]

(d) Notwithstanding the foregoing provisions of this Rule, the Chairman, the Management Vice Chairman, or the President of the Corporation, or any delegate of such officer, may in the sole discretion of such person permit a Clearing Member to file, revoke, or modify any exercise notice other than any exercise notice with respect to an option contract cleared through ICS or any exercise notice that the Board of Directors has determined not to be eligible for late processing, after an applicable deadline prescribed pursuant to paragraph (a) of this Rule, solely for the purpose of correcting a bona fide error on the part of the Clearing Member or a customer, subject to the following conditions:

(1) [unchanged]

(2) The Clearing Member shall be liable to the Corporation for a late filing fee [in escalating increments and time segments] of \$75,000 per line item listed on any exercise notice accepted for filing after the start of critical processing, and shall be informed of [the applicable filing] such fee at the time a request to file[, revoke, or modify] any exercise notice subject to such fee is submitted to the Corporation. [as follows:

(i) a filing fee of \$5,000 per Clearing Member for any request accepted between the applicable deadline prescribed by the Corporation pursuant to paragraph (a) of this Rule and the start of critical processing, provided that such request does not materially affect the start of critical processing; and

(ii) a filing fee of \$20,000 per line item listed on any exercise notice accepted for filing after the start of critical processing, with 50] Fifty percent of any late filing [such] fee [to] shall be distributed to the assigned Clearing Member or pro-rata to the assigned Clearing Members.

The Corporation will not accept any late exercise request received after 6:30 A.M. Central Time (7:30 A.M. Eastern Time). Clearing Members that have been assigned a late exercise notice shall be notified of the assignment by 8:00 A.M. Central Time (9:00 A.M. Eastern Time).

Notwithstanding any other provision of the Rules or By-Laws, the Corporation will not accept any request to revoke or modify a previously submitted exercise notice received by it after the start of critical processing.

(3) - (6) [unchanged]

Expiration Date Exercise Procedure

RULE 805. (a) – (f) [unchanged]

(g) In the event that a Clearing Member tenders an exercise notice pursuant to subparagraph (c) (a “supplementary exercise notice”) after the deadline prescribed pursuant to subparagraph (b) for the submission of exercise instructions in response to Expiration Exercise Reports, such Clearing Member shall be liable to the Corporation for a late filing fee of \$75,000 per line item for any supplementary exercise notice tendered after the commencement of critical expiration processing[in escalating increments and time segments] and shall be informed of [the applicable] such fee at the time the supplementary exercise notice is tendered[; as follows:

- (1) a filing fee of \$5,000 per Clearing Member for any supplementary exercise notice tendered after the deadline prescribed pursuant to subparagraph (b) but prior to the commencement of critical expiration processing;
- (2) a filing fee of \$20,000 per line item, per Clearing Member, for any supplementary exercise notice tendered after the commencement of critical expiration processing].

The tender of a supplementary exercise notice may also be deemed to be a violation of the procedures of the Corporation, and may be subject to disciplinary action pursuant to Chapter XII of the Rules.

(h) – (j) [unchanged]

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of OCC at meetings held on September 25 and December 4, 2007.

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

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

The purpose of this rule filing is to amend (i) Rule 801 to modify the filing fees applied to late exercise requests submitted at other than expiration, (ii) Rule 805 to make conforming changes to the filing fees applied to the submission of supplementary (*i.e.*, late) exercise notices at expiration, and (iii) Rule 205 to make more explicit the circumstances under which OCC may extend the cut-off time for submitting instructions to OCC, including exercise instructions other than at expiration.

Background

Rule 801 addresses the exercise of options other than at expiration. Subject to specified exceptions and conditions, Rule 801(d) grants certain individuals¹ the discretion to permit a clearing member to file, revoke or modify any exercise notice after the prescribed deadline for the purpose of correcting a bona fide error. However, the requesting clearing member is liable to OCC for a late filing fee in escalating increments and time segments. They are:

¹ Those individuals are OCC's Chairman, Management Vice Chairman, President, or a designee of such officer.

- a fee of \$5,000 for any request accepted between the prescribed deadline and the start of critical processing (provided that the request does not materially affect such start time)²; and
- a filing fee of \$20,000 per line item listed on any exercise notice accepted for filing after the start of critical processing, with 50% of the fee to be distributed to the assigned clearing member or on a pro rata basis if more than one clearing member is assigned.³

Clearing members with short positions that have been assigned a late exercise are to receive notification thereof by 8:00 a.m. CT.

Discussion

At the March, 2007 OCC Roundtable meeting⁴, a clearing member raised the issue of processing late exercises other than at expiration. The firm questioned the fairness of this process to option writers, noting that unexpectedly receiving additional assignments in the morning financially impacted the firm because its practice is to promptly review assignments from nightly processing and to hedge those obligations before the U.S. markets open. Expressing the view that late exercises permit a clearing member to shift liability for its own operational errors to another, the firm proposed that they be eliminated to remedy this inequity and to cause clearing members to improve back office operations. After discussion, the Roundtable participants agreed to review the matter within their respective organizations and to revisit the topic at their next meeting.

² The current deadline for submitting exercise notices is 7:00 p.m. CT.

³ OCC will accept exercises until as late as 6:30 a.m. However, OCC will not accept a request to revoke or modify an exercise after the start of critical processing.

⁴ OCC's Roundtable is an OCC sponsored advisory group comprised of representatives from OCC's participant exchanges, OCC, a cross-section of OCC clearing members, and industry service bureaus. The Roundtable considers operational improvements that may be made to increase efficiencies and lower costs in the options industry.

In connection with its consideration of the matter, OCC reviewed the purpose served by permitting such exercises and recent processing of late exercise requests. Late exercises have long been allowed under OCC's rules to prevent clearing members from suffering severe economic losses due to bona fide operational errors. OCC determined that only a handful of late exercise requests were received during the period January, 2006 through March, 2007.⁵ More specifically, there were five requests for late exercises from five different firms relating to 14 line items with dollar values ranging from \$124,000 to \$270,000. All requests were received after the start of critical processing, requiring OCC to run supplemental exercise procedures after nightly processing had been completed. Such processing was initiated following the 6:30 a.m. (CT) cut-off time for late exercise requests,⁶ and all assigned firms were notified before the 8:00 a.m. (CT) deadline. As specified in Rule 801(d), fifty percent of the \$20,000 per line item filing fee was distributed to assigned clearing members.

Although no late exercise requests were received between the deadline for submitting exercises and the start of critical processing during the above-referenced review period, OCC also determined that, upon request, its operations staff would extend that deadline by a reasonable period in the event an exchange, clearing member or OCC experienced system or operational problems that prevented one or more clearing members from submitting exercises on

⁵From April, 2007 to October, 2007, there were no requests to submit a late exercise, although in each of June and September, 2007, OCC received an inquiry regarding a possible submission. However, the clearing members involved elected not to formally file such a request.

⁶Systemic and operational constraints preclude OCC from processing late exercise requests at an earlier time.

a timely basis.⁷ The payment of the applicable filing fee in such instances was not required nor has it typically been required for requests received before the start of critical processing.

After carefully weighing the purpose and recent uses of the late exercise rule versus the fairness issue, OCC determined, on balance, that it would be appropriate to retain the late exercise rule with certain modifications. Accordingly, OCC proposes to raise the filing fee for late exercise requests submitted post-critical processing from \$20,000 to \$75,000 per line item.⁸ This change is intended to provide an incentive for firms to improve back office processing by increasing the cost of filing late exercise requests after the start of critical processing as well as to provide greater compensation to clearing members receiving "late assignments", while at the same time preserving the ability of firms to correct bona fide operational errors. To reflect current operating procedures, OCC proposes to eliminate the \$5,000 filing fee for late exercise requests filed prior to the start of critical processing. For consistency, OCC also proposes to modify the fees applicable to the submission of supplementary exercise notices at expiration as set forth in Rule 805.⁹ Accordingly, OCC will amend Rule 805's filing fees to conform them to the changes being made in Rule 801.

* * *

The proposed change is consistent with Section 17A of the Securities Exchange

⁷ Subject to OCC's need to start critical processing, the deadline for submitting exercise notices may be extended if "unforeseen conditions" prevent their submission by a clearing member (See OCC Rule 205). OCC has concluded that its authority to extend such deadlines should more explicitly reference systemic or operational problems or other unforeseen conditions experienced by additional industry participants that may impact the timely submission of exercise notices.

⁸ Management's proposal was presented at the June, 2007 Roundtable meeting. After discussion, the Roundtable determined that OCC management should decide whether to recommend the proposal to OCC's Board of Directors.

⁹ It has been at least five years since a supplementary exercise notice has been submitted for processing.

Act of 1934, as amended (the "Exchange Act"), because it promotes the prompt and accurate clearance and settlement of securities transactions by providing an incentive for clearing members to improve back office processing with respect to determining positions for which an exercise notice is to be submitted, while preserving their ability to correct bona fide operational errors. 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

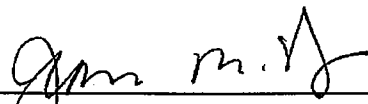
Federal Register.

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: _____


Jean M. Cawley
Senior Vice President and
Deputy General Counsel