



THE OPTIONS CLEARING  
CORPORATION

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OFFICE OF THE  
SECRETARIAT

December 16, 2010

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-2010-19 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

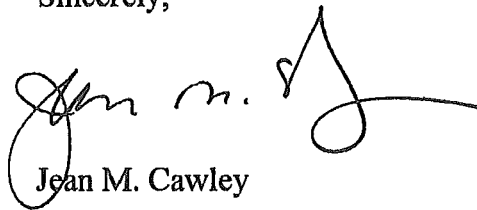
JCAWLEY@THEOCC.COM WWW.OPTIONSCLEARING.COM



Mr. David A. Stawick  
Page Two  
December 16, 2010

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

Sincerely,



Jean M. Cawley

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Attachments

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

OCC-2010-19 cftc.ltr

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

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Form 19b-4

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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 an existing interpretation following Rule 601 of its Rules. The purpose of the proposed amended interpretation is to provide clarification to OCC clearing members regarding the regulatory treatment, under Rule 15c3-1 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), of collateral and margin posted by clearing members participating in stock loan transactions through OCC’s Stock Loan/Hedge Program and/or Market Loan Program. OCC has discussed this with the staff in the Division of Trading and Markets, who concur with this amended interpretation. Material proposed to be added to OCC’s Rules as currently in effect is underlined. Material proposed to be deleted is enclosed in bold brackets.

**THE OPTIONS CLEARING CORPORATION**

**RULES**

\* \* \*

**CHAPTER VI**

**Margin Requirements**

**RULE 601.**

[No change.]

***...Interpretations and Policies:***

.01 - .04 [No Change.]

.05 To the extent that stock loan positions and stock borrow positions established in an account pursuant to the Stock Loan/Hedge Program (provided for in Article XXI of the By-Laws and Chapter XXII of the Rules) or the Market Loan Program (provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules) have [collateral] Collateral set at a percentage greater than 100% of the market value of the Loaned Stock [102%], an additional margin charge equal to the [2%] excess [collateral] Collateral shall be applied to the account of the [lending Hedge] Lending Clearing Member, and a margin credit equal to the [2%] excess [collateral] Collateral shall be applied to the account of the [borrowing Hedge] Borrowing Clearing Member. This margin charge/credit shall be an addition to, or a reduction of, the margin requirement otherwise determined for the accounts of the [lending] Lending Clearing Members and [borrowing] Borrowing Clearing Members in accordance with this Rule 601. For purposes of calculating their net capital requirements in accordance with Rule 15c3-1 promulgated under the Securities Exchange Act of 1934, as amended, Lending Clearing Members and Borrowing Clearing Members shall not be required to treat such additional margin, any portion of the Collateral or any portion of the Loaned Stock as an "unsecured receivable" requiring a deduction from net capital. [The foregoing policy shall apply to stock loan and borrow positions established on and after January 1, 2009. On and after March 1, 2009, the policy shall apply to all stock loan and borrow positions, regardless of the date when such positions were established.]

.06 [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 May 20, 2008.

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 the proposed rule change is to provide OCC's clearing members with clarification regarding the regulatory treatment, under Rule 15c3-1 under the Exchange Act, of collateral and margin posted by clearing members participating in stock loan transactions through OCC's Stock Loan/Hedge Program and/or Market Loan Program. OCC has discussed this with the staff in the Division of Trading and Markets, who concur with this interpretation.

**Background**

OCC's Stock Loan/Hedge Program is provided for in Article XXI of the By-Laws and Chapter XXII of the Rules, and provides a means for OCC clearing members to submit broker-to-broker stock loan transactions to OCC for clearance. Broker-to-broker transactions are independently-executed stock loan transactions that are negotiated directly between two OCC clearing members. OCC's Market Loan Program, provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules, accommodates securities loan transactions executed through electronic trading platforms that match lenders and borrowers on an anonymous basis. Anonymous stock loan transactions are initiated when a lender or borrower, who is either an OCC clearing member participating in the Market Loan Program or a non-clearing member who has a clearing relationship with an OCC clearing member participating in the Market Loan Program, accepts a bid/offer displayed on a trading platform. A clearing member participating in the Market Loan Program will be obligated to OCC as principal with respect to transactions effected by its customers that are non-clearing members of a trading platform.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction.<sup>1</sup> One advantage of submitting stock loan transactions to OCC is that the stock loan and stock borrow positions then reside in the clearing member's options account at OCC and, to the extent that they offset the risk of options positions carried in the same account, may reduce the clearing member's margin requirement in the account. OCC's risk is, in turn, reduced by having the benefit of the hedge.

One of the tools that OCC uses to manage its exposure to stock loan transactions is the margin that OCC calculates and collects with respect to each account of a clearing member with OCC.<sup>2</sup> Such margin consists of a mark-to-market component that is based on the net asset value of the account (*i.e.*, the cost to liquidate the account at current prices). A second component of such margin is the risk component ("Risk Margin") determined under OCC's proprietary margin system on the basis of the net risk of all open positions carried in the account,

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<sup>1</sup> With respect to both the Stock Loan/Hedge Program and the Market Loan Program, the loaned securities are moved to the account of the borrower against cash collateral (normally 102%) through the facilities of the Depository Trust Company, and OCC is notified by the Depository that the movement has occurred at the time the transaction is submitted for clearance. The securities are returned to the lender against return of the cash collateral through the same mechanism.

<sup>2</sup> This OCC margin requirement is in addition to the cash collateral that is transferred to the stock lender, and may be deposited in any form constituting acceptable collateral under OCC Rule 604.

including stock loan positions as well as options positions. (OCC does not calculate risk margin on stock loan positions and stock borrow positions separately from risk margin on options positions carried in the same account). An additional margin requirement (“Additional Margin”), which is solely applicable to stock loan transactions, arises where the collateral provided by the borrowing clearing member is greater than the current market value of the loaned stock. For example, where in a stock loan transaction the borrowing clearing member is required to provide collateral equal to 102% of the current market value of the loaned stock, OCC will charge the corresponding lending clearing member an Additional Margin amount equal to the 2% excess collateral and credit the borrowing clearing member an equal amount. These Additional Margin charges/credits are designed to provide OCC with resources to fully compensate a party to a stock loan transaction in the event that the counterparty defaults and the loaned stock (or collateral) held by the non-defaulting party is less than the value of the collateral (or loaned stock) exchanged.

#### **Description of Rule Change**

In an Order issued in December 2008<sup>3</sup>, the Commission confirmed OCC’s understanding that, where stock loan transactions are submitted to OCC for clearance through the Stock Loan/Hedge Program, any Additional Margin that a clearing member is required to deposit with OCC will be treated the same as any other portion of the OCC margin deposit requirement and therefore will not constitute an unsecured receivable that would otherwise be required to be deducted from such clearing member’s net capital for purposes of Rule 15c3-1 under the Exchange Act. Through this rule change, OCC is expanding the prior interpretive relief so that:

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<sup>3</sup> See Securities Exchange Act Release 59036 (December 1, 2008), approving SR-OCC-2008-06.



(i) clearing members also would not be required to take a net capital deduction with respect to any excess of the collateral over the market value of the loaned stock and (ii) such expanded interpretive relief also applies to stock loan transactions submitted to OCC for clearance through the Market Loan Program. As explained above, any over-collateralization of the loaned stock will be secured and offset by Additional Margin charges/credits applied by OCC. Therefore, any such excess collateral on loaned stock also should not be deemed to constitute an unsecured receivable for purposes of Rule 15c3-1.

OCC believes that providing such relief from Rule 15c3-1(c)(2)(iv)(B) is within the policy objectives of the rule. Specifically, while the intent behind the capital charges is to protect the stock borrower against credit exposure to the lender, the borrower has no such credit exposure where OCC is substituted as the central counterparty. Furthermore, under the Market Loan Program, whereby stock loan transactions are effected through an electronic trading platform, it is literally impossible for the clearing member to look through OCC and treat another clearing member as its counterparty.

In connection with the above-referenced initiatives, OCC proposes to amend interpretation .05 to reflect the regulatory treatment under Rule 15c3-1 of collateral and margin posted by clearing members participating in stock loan transactions through the Stock Loan/Hedge Program and/or Market Loan Program.

\* \* \*

The proposed change to OCC's Rules is consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because it is

designed to promote the prompt and accurate clearance and settlement of stock loan transactions, and to foster cooperation and coordination with persons engaged in the clearance and settlement of such transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions, and, in general, to protect investors and the public interest. The proposed rule change is not inconsistent with the existing rules of OCC, including any 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 specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

**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**

The proposed rule change is not based on a rule change of another self-regulatory organization.

**Item 9. Exhibits**

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

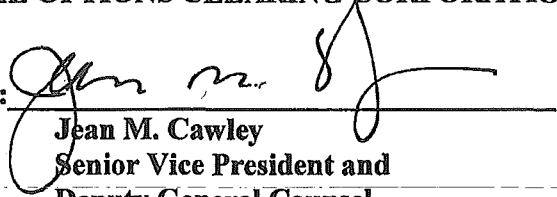
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**SIGNATURE**

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:

A handwritten signature in black ink, appearing to read "Jean M. Cawley", is written over a solid horizontal line. The signature is stylized and cursive.

**Jean M. Cawley  
Senior Vice President and  
Deputy General Counsel**

**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34-\_\_\_\_\_ ; File No. SR-OCC-2010-19

**SELF-REGULATORY ORGANIZATION**

Proposed Rule Change By  
The Options Clearing Corporation

Relating to OCC's Stock Loan Programs

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

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on \_\_\_\_\_, 2010, 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 the Substance of the Proposed Rule Change**

The proposed rule change would provide OCC's clearing members with clarification regarding the regulatory treatment, under Rule 15c3-1 under the Exchange Act, of collateral and margin posted by clearing members participating in stock loan transactions through OCC's Stock Loan/Hedge Program and/or Market Loan Program.

**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 the proposed rule change is to provide OCC's clearing members with clarification regarding the regulatory treatment, under Rule 15c3-1 under the Exchange Act, of collateral and margin posted by clearing members participating in stock loan transactions through OCC's Stock Loan/Hedge Program and/or Market Loan Program. OCC has discussed this with the staff in the Division of Trading and Markets, who concur with this interpretation.

**Background**

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Anonymous stock loan transactions are initiated when a lender or borrower, who is either an OCC clearing member participating in the Market Loan Program or a non-clearing member who

has a clearing relationship with an OCC clearing member participating in the Market Loan Program, accepts a bid/offer displayed on a trading platform. A clearing member participating in the Market Loan Program will be obligated to OCC as principal with respect to transactions effected by its customers that are non-clearing members of a trading platform.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction.<sup>1</sup> One advantage of submitting stock loan transactions to OCC is that the stock loan and stock borrow positions then reside in the clearing member's options account at OCC and, to the extent that they offset the risk of options positions carried in the same account, may reduce the clearing member's margin requirement in the account. OCC's risk is, in turn, reduced by having the benefit of the hedge.

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**Description of Rule Change**

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<sup>3</sup> See Securities Exchange Act Release 59036 (December 1, 2008), approving SR-OCC-2008-06.



Exchange Act. Through this rule change, OCC is expanding the prior interpretive relief so that: (i) clearing members also would not be required to take a net capital deduction with respect to any excess of the collateral over the market value of the loaned stock and (ii) such expanded interpretive relief also applies to stock loan transactions submitted to OCC for clearance through the Market Loan Program. As explained above, any over-collateralization of the loaned stock will be secured and offset by Additional Margin charges/credits applied by OCC. Therefore, any such excess collateral on loaned stock also should not be deemed to constitute an unsecured receivable for purposes of Rule 15c3-1.

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The proposed change to OCC's Rules is consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because it is designed to promote the prompt and accurate clearance and settlement of stock loan transactions,

and to foster cooperation and coordination with persons engaged in the clearance and settlement of such transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions, and, in general, to protect investors and the public interest. The proposed rule change is not inconsistent with the existing rules of OCC, including any rules proposed to be amended.

**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-2010-19 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-2010-19. 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, 100 F 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-2010-19 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: \_\_\_\_\_

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