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December 20, 2011

VIA FEDERAL EXPRESS

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

Re: Rule Filing SR-OCC-2011-19—Rule Certification

Dear Secretary Stawick:

Enclosed 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. The date of implementation of the rule changes is the date the proposed rules are approved by the Securities and Exchange Commission (“SEC”). This rule filing has been, or is concurrently being, submitted to the SEC under the Securities Exchange Act of 1934 (the “Exchange Act”). The text of the rules is set forth at Item 1 of the enclosed filing.

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

Explanation and Analysis

OCC hereby incorporates by reference Item 3 of the enclosed rule filing, which sets forth an explanation and analysis of the operation, purpose and effect of the proposed rule amendment. OCC further states that the proposed rule amendments comply with the Commodity Exchange Act, including the derivative clearing organization core principles, and the Commission’s regulations thereunder.

David Stawick
December 20, 2011
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Opposing Views

OCC hereby incorporates by reference Item 5 of the enclosed rule filing, which sets forth a description of any written comments on the rule filing, including any such comments expressing opposing views that were not incorporated into the proposed rule.

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

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,



Stephen Szarmack

Enclosure

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

SR-OCC-2011-19

RULE NUMBERS

Article I - Section 1; Article V - Sections 1&3; Article VI - Sections 1-10, 15, 16,18, 20, 22, & 27; Article VIII - Sections 1, 5&7; Article XIV - Section 1; Article XV – Section 1; Article XI - Section 1; Article XVI - Section 1; Article XVII - Sections 1-6; Article XX - Section 1, 3 & 5; Article XXII - Section 1; Article XXVI - Section 1; Chapter I - Rule 101; Chapter II - Rules 204 & 207; Chapter IV -Rule 401-405; Chapter V - Rules 501-502; Chapter VI – Rules 601, 611; Chapter VIII – Rules 801, 803, 805, 807; Chapter X – Rule 1001; Chapter XI – Rule 1105 & Rule 1106; Chapter XIII – Rule 1301A; Chapter XVIII – Rules 1801, 1803 & 1804; Chapter XXI – Rule 2112; Article XXIII – Sections 1, 3, & 8; Chapter XXIV – Rule 2410

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” or the “Corporation”) proposes to amend its By-Laws and Rules as set forth below to provide for the clearance and settlement of index options that are negotiated bilaterally in the over-the-counter market and submitted to OCC for clearance (“OTC options”). Material proposed to be added to OCC’s By-Laws and Rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets. Double underlining and double bold brackets indicate either (a) material proposed to be added or deleted in a separate pending rule filing¹ or (b) material approved by the Commission, but not yet implemented by OCC,² as indicated in the footnotes accompanying such material.

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

ARTICLE I

DEFINITIONS

* * *

Definitions

SECTION 1. Unless the context requires otherwise (or except as otherwise specified in the By-Laws or Rules), the terms defined herein shall, for all purposes of these By-Laws and the Rules of the Corporation, have the meanings herein specified.

A. [no change]

B.

¹ See SR-OCC-2011-13 A-1.

² See SR-OCC-2011-10.

(1) – (5) [no change]

Buyer

(6) The term “buyer” used in relation to a future means, as the context requires, a person with a long position in the future or a person purchasing a future in a matched trade [an Exchange transaction].

(7) [no change]

C.

(1) – (3) [no change]

Carrying Clearing Member

(4) The term “Carrying Clearing Member” means a Clearing Member that has authorized an Executing Clearing Member to direct the transfer of a matched trade [an Exchange transaction] to a designated account of such Carrying Clearing Member pursuant to a CMTA arrangement.

(5) – (8) [no change]

A. [No change]

Class

(9) The term “class” means, when applied to options, all option contracts of the same type and style covering the same underlying interest; provided, however, that OTC options and listed options that would otherwise constitute a single class of options shall constitute separate classes. [and w]When applied to futures, the term “class” means all futures covering the same underlying interest.

(10) – (12) [no change]

Clearing Member

(13) The term “Clearing Member” means a person or organization that has been admitted to membership in the Corporation pursuant to the provisions of the By-Laws and Rules. References in the By-Laws or Rules to the term “Clearing Member” preceded by a capitalized reference to an underlying interest or a cleared contract, e.g., a “Stock Clearing Member,” or a “Security Futures Clearing Member,” shall be deemed to be to a Clearing Member approved in accordance with Article V of the By-Laws to clear transactions in options on the specified underlying interest, or in the cleared contract, as applicable, provided that the term “Stock Clearing Member” shall be deemed to include a Clearing Member approved to clear transactions

in BOUNDS as well as stock options, the term “Treasury Securities Clearing Member” shall mean a Clearing Member approved to clear transactions in Treasury Securities options excluding yield-based Treasury options and the term “Index Clearing Member” shall mean a Clearing Member approved to clear transactions in cash-settled options other than OTC options. The term “OTC Index Option Clearing Member” means a person that has been approved to clear OTC index options.

(14) [no change]

Closing Purchase Transaction

(15) The term “closing purchase transaction” means a matched trade [an Exchange transaction] in which the purchaser’s intention is to reduce or eliminate his short position in a series of cleared security.

Closing (Sale) Transaction

(16) The term “closing sale transaction” or “closing writing transaction” means a matched trade [an Exchange transaction] in which the seller’s intention is to reduce or eliminate a long position in a series of cleared security.

CMTA

(17) The term “CMTA” (Clearing Member Trade Assignment) means the process by which an Executing Clearing Member, acting on its own behalf or as the Clearing Member of an Introducing Broker, directs the transfer of a matched trade [an Exchange transaction] to a designated account of a Carrying Clearing Member for clearance and settlement.

(18) [no change]

CMTA Customer; CMTA Customer Identifier; Customer CMTA Indicator

(19) The term “CMTA Customer” means a customer of a Carrying Clearing Member who has been assigned a CMTA Customer Identifier by such Carrying Clearing Member to designate that matched trades [Exchange transactions] executed and cleared on such customer’s behalf are pursuant to a CMTA arrangement. The term “CMTA Customer Identifier” means a string of characters (as may be modified from time to time) assigned by a Carrying Clearing Member to identify a CMTA Customer. The term “Customer CMTA Indicator” means an indicator included with the matching trade information to designate that a matched trade [an Exchange transaction] was effected on behalf of a CMTA Customer.

(20) – (21) [no change]

Commencement Time

(22) The term “commencement time” means the time at which matched trades [Exchange transactions] are accepted for clearing by the Corporation as specified in Section 5 of Article VI.

(23) – (33) [no change]

Customers’ Account

(34) The term “customers’ account” in respect of a Clearing Member means an account of the Clearing Member on the records of the Corporation which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of its securities customers, other than those transactions of Market-Makers which are cleared through a Market-Maker’s account. The term “customers’ account” does not include a segregated futures account or customers’ lien account.

(35) [no change]

D. [no change]

E.

(1) – (10) [no change]

Exchange Rules

(11) The term “Exchange Rules,” when used in respect of any Exchange, means the constitution, certificate of incorporation, by-laws, rules and stated policies, and all written interpretations thereof, or instruments corresponding to the foregoing, as the same may be in effect from time to time, of that Exchange. The term “Exchange Rules” in respect of [an Exchange transaction] a matched trade effected on or through the facilities of an Exchange means the constitution, certificate of incorporation, by-laws, rules and stated policies, and all written interpretations thereof, or instruments corresponding to the foregoing, as the same may be in effect from time to time, of that Exchange [the Exchange on which such transaction was effected]. The term “Exchange Rules” in respect of a cleared contract means the constitution, certificate of incorporation, by-laws, rules and stated policies, and all written interpretations thereof, as the same may be in effect from time to time, of each Exchange on which such cleared contract is traded.

[Exchange Transaction

(12) The term “Exchange transaction” as used in respect of an Exchange other than an international market means a transaction on or through the facilities of an Exchange for the purchase, writing, or sale of a cleared contract or for the closing out of a long or short position in a cleared contract. As used in respect of an international market, such term means a transaction on or through the facilities of such market for the purchase, writing, or sale of a

cleared contract, or for the closing out of a long or short position in a cleared contract, for which the Corporation acts as clearing agent pursuant to an international market agreement.]

Executing Clearing Member

(12) [(13)] The term “Executing Clearing Member” means a Clearing Member, on its own behalf or as the Clearing Member of an Introducing Broker, that has been authorized by a Carrying Clearing Member to direct matched trades [Exchange transactions] to be transferred to a designated account of the Carrying Clearing Member pursuant to such Clearing Members’ CMTA arrangement.

Execution-Only Clearing Member

(13) [(14)] The term “Execution-Only Clearing Member” shall mean a Clearing Member approved to act only as a Clearing Member that transfers matched trades [Exchange transactions] or allocates positions to other Clearing Members, and not to carry positions in its accounts with the Corporation on a routine basis.

(15) – (20) [renumbered as (14) – (19); otherwise no change]

Expiration Exercise Report

(20) [(21)] The term “Expiration Exercise Report” shall mean information [a report] made available online by the Corporation to a Clearing Member on an expiration date identifying [listing], by account, each expiring option contract in each of the Clearing Member’s accounts with the Corporation. Such term shall also include updated versions of any such information [report] made available to a Clearing Member prior to such time on the expiration date as the Corporation shall from time to time specify. [An Expiration Exercise Report shall indicate the closing price (as defined in Rule 805) of the underlying interest for each series of options listed therein and shall include such further information as the Corporation shall deem appropriate.]

(22) – (23) [renumbered as (21) – (22); otherwise no change]

F.

(1) – (2) [no change]

Firm Account

(3) The term “firm account” in respect of a Clearing Member means an account established by the Clearing Member which is confined to matched trades [Exchange transactions] cleared and positions carried on behalf of non-customers of the Clearing Member. The term “firm lien account” means a firm account as to which the Corporation shall have a lien on all long positions in the account pursuant to Sections 3(a), (b)(iv), (c)(v), and (k) of Article VI

of the By-Laws, and the term “firm non-lien account” means a firm account as to which the Corporation shall have a lien only on unsegregated long positions therein.

(4) – (12) [no change]

G. – H. [no change]

I.

(1) – (3) [no change]

Index Multiplier

(4) The term “index multiplier” (i) as used in reference to an index option contract other than an OTC index option contract, means the dollar amount (as specified by the Exchange on which such contract is traded) by which the current index value is to be multiplied to obtain the aggregate current index value, [and] (ii) as used in reference to an OTC index option contract, means the dollar amount (as agreed upon by the parties to such transaction) by which the current index value is to be multiplied to obtain the aggregate current index value, and (iii) as used in reference to index futures of any series, means the dollar amount (as specified by the Exchange on which such series is traded) by which the final settlement price in respect of such futures is to be multiplied to obtain the final variation payment. Such term replaces the term “unit of trading,” used in reference to other kinds of options.

Index Value Determinant

(5) The term “index value determinant,” used in respect of settlement of flexibly structured index option contracts and futures and OTC options, means the method for determining the current index value on the expiration date or maturity date as that method is reported to the Corporation by the applicable Exchange [on which the option or future was purchased] or OTC Trade Source.

(6) – (10) [no change]

International Option

(11) The term “international option” means an option contract issued by the Corporation as the result of an international transaction pursuant to an international market agreement. In addition, the Corporation may designate other options belonging to the same class as such options as international options, and may designate matched trades [Exchange transactions] in such options as international transactions, for the purposes of some or all of the provisions of the By-Laws and Rules applicable to international options and international transactions, respectively.

International Transaction

(12) The term “international transaction” means a matched trade [an Exchange transaction] effected under the provisions of an international market agreement and shall include such other matched trades [Exchange transactions] as the Corporation may designate as international transactions in accordance with the definition of “international option.”

Introducing Broker; IB Identifier

(13) The term “Introducing Broker” means a broker-dealer or futures commission merchant that takes an order for [an Exchange] a transaction in a cleared contract from a CMTA Customer, executes or arranges for [an Exchange member] another broker-dealer or futures commission merchant to execute such transaction and, in the case of an Introducing Broker that is not a Clearing Member, arranges for its Clearing Member or the executing [Exchange member’s] broker-dealer’s or futures commission merchant’s Clearing Member to direct the resulting matched trade [Exchange transaction] to be transferred to a designated account of a Carrying Clearing Member. The term “IB Identifier” means a string of characters (as may be modified from time to time) assigned by the Executing Clearing Member to (i) itself or (ii) an Introducing Broker that is not a Clearing Member to identify an Introducing Broker that has executed or arranged for the execution of any [Exchange] transaction in a cleared contract on behalf of a CMTA Customer.

J.

JBO Participant

(1) The term “JBO Participant” means a broker-dealer registered with the Securities and Exchange Commission that: (i) maintains a joint back office arrangement with a Clearing Member pursuant to the requirements of Regulation T promulgated by the Board of Governors of the Federal Reserve System; (ii) meets the requirements applicable to JBO Participants as specified in Exchange Rules; and (iii) consents to having his matched trades [Exchange transactions] cleared and positions carried in a JBO Participants’ account. A JBO Participant shall be considered a “Market-Maker” for purposes of these By-Laws and Rules, except for purposes of Chapter IV of the Rules, or where the context otherwise requires.

JBO Participants’ Account

(2) The terms “JBO Participants’ account” in respect of a Clearing Member means an account established by the Clearing Member which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of JBO Participants.

(3) [no change]

K. – L. [no change]

M.

(1) – (3) [no change]

Market-Maker Account

(4) The term “Market-Maker account” or “Market-Maker’s account” in respect of a Clearing Member means an account established by the Clearing Member which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member in an account that is not required to be segregated under Section 4d of the Commodity Exchange Act on behalf of a Market-Maker; and, unless the context otherwise requires, such term includes (i) a combined Market-Makers’ account, and (ii) a JBO Participants’ account.

(5) – (11) [no change]

Matched Trade

(12) The term “matched trade” means a transaction for the purchase, writing, or sale of a cleared contract, or for the closing out of a long or short position in a cleared contract, that is (i) effected on or through the facilities of an Exchange and submitted to the Corporation as a matched trade or (ii) affirmed through the facilities of an OTC Trade Source and submitted to the Corporation as a matched trade.

...Interpretations and Policies:

.01 The term “Exchange transaction” was removed from the By-Laws and Rules and replaced with the term “matched trade” to reflect the expansion of the Corporation’s clearing activities into OTC options. “Matched trade” is a successor term to the term “Exchange transaction.” Any reference to the term “Exchange transaction” or “exchange transaction” in any agreement to which the Corporation is a party should be interpreted to refer instead to the term “matched trade.”

Maturity Date

(13) [(12)] The term “maturity date” means (i) in respect of a series of futures other than flexibly structured security futures, the date designated by the Exchange(s) on which such series is traded as the date on or as of which the final settlement price for such series is determined, and (ii) in respect of a flexibly structured future, the date agreed upon by the Purchasing Clearing Member and Selling Clearing Member in a matched trade [an Exchange transaction] as the date on or as of which the final settlement price for such future is determined, as such date is reported to the Corporation by the Exchange.

(13) – (15) [renumbered (14) – (16); otherwise no change]

N. [no change]

O.

OCC Proprietary X-M Account; OCC Non-Proprietary X-M Account; CCO Proprietary X-M Account; CCO Non-Proprietary X-M Account; Set of X-M Accounts

(1) The term “OCC cross-margin account” or “OCC X-M account” means an account carried by a Joint Clearing Member or the OCC Clearing Member of a Pair of Affiliated Clearing Members at the Corporation in which options positions subject to cross-margining treatment are maintained. The term “CCO cross-margin account” or “CCO X-M account” means an account carried by a Joint Clearing Member or the CCO Clearing Member of a Pair of Affiliated Clearing Members at a Carrying CCO in which futures options, commodity options and futures contracts subject to such cross-margining treatment are maintained. A “proprietary X-M account” means an X-M account that is confined to the matched trades [Exchange transactions] and positions of non-customers of the carrying Clearing Member and other proprietary Market Professionals. A “non-proprietary X-M account” means an X-M account that is confined to the matched trades [Exchange transactions] and positions of Market Professionals that are neither non-customers of the carrying Clearing Member nor other proprietary Market Professionals. The term “set of X-M accounts,” which may consist of two X-M accounts (“paired accounts”) or three or more X-M accounts, means the OCC X-M account (proprietary or non-proprietary) and each corresponding CCO X-M account of a Joint Clearing Member or a Pair of Affiliated Clearing Members carried at the Carrying CCO(s).

Opening Purchase Transaction

(2) The term “opening purchase transaction” means a matched trade [an Exchange transaction] in which the purchaser’s intention is to create or increase a long position in a series of cleared contracts.

Opening Sale (Writing) Transaction

(3) The term “opening sale transaction” or “opening writing transaction” means a matched trade [an Exchange transaction] in which the seller’s intention is to create or increase a short position in a series of cleared contracts.

Option Contract

(4) The term “option contract” or “option” means a put option, a call option, a binary option, a range option or a packaged spread option (as defined in Article XXVI of the By-Laws) issued by the Corporation pursuant to the By-Laws and Rules. The term “stock option contract” means a put or a call, as defined in this Article I for which the underlying security is an equity security, including fund shares, or an index-linked security. The term “Treasury securities option contract” means a put or a call, as defined in Article XIII of the By-Laws. The term “yield-based Treasury option contract” means a put or a call, as defined in Article XVI of the

By-Laws. The term “debt securities option contract” means a Treasury securities option contract. The term “foreign currency option contract” means a put or a call, as defined in Article XV of the By-Laws. The term “cross-rate foreign currency option contract” means a put or a call, as defined in Article XX of the By-Laws. The term “cash-settled foreign currency option contract” means a put or a call, as defined in Article XXII of the By-Laws. The term “index option contract” means [a put or a call, as defined in Article XVII of the By-Laws] any option contract the underlying interest of which is a securities index or commodities index. The term “cash-settled option contract” means any option contract that is settled upon exercise by payment of cash rather than delivery of, and payment for, the underlying interest. The term “non-equity securities option contract” means a debt securities option contract (other than an option on an index-linked security), a foreign currency option contract, a cross-rate foreign currency option contract, a cash-settled option contract, or a futures option. The term “futures option” means any option to buy or sell any commodity futures contract traded on, through the facilities of, or subject to the rules of a futures market.

Origination Date

(5) The term “origination date” means, with respect to a transaction in an OTC option, the date when the transaction was executed by the original parties to the transaction.

OTC Index Option

(6) The term “OTC index option” means an “OTC option,” as defined in this Article I, that is an index option.

OTC Option

(7) The term “OTC option” means an “option contract,” as defined in this Article I, with variable terms that are negotiated bilaterally between the parties to such transaction (subject to any specific requirements applicable to such products as set forth in the By-Laws and Rules), and that is affirmed through the facilities of an OTC Trade Source and submitted to the Corporation for clearing as a matched trade.

OTC Trade Source

(8) The term “OTC Trade Source” means any electronic messaging system approved by the Corporation through which transactions in OTC options may be affirmed by the parties to such transactions and submitted to the Corporation for clearance as a matched trade.

OTC Trade Source Rules

(9) The term “OTC Trade Source Rule,” when used in respect of any OTC Trade Source, means the rules, agreements, policies and procedures of the OTC Trade Source applicable to users or participants of the OTC Trade Source for the purpose of affirming and submitting matched trades to the Corporation for clearance.

P.

(1) – (8) [no change]

Premium

(9) The term “premium” in respect of any matched trade [Exchange transaction] in option contracts means the aggregate price of such option contracts agreed upon between the purchaser and seller in such transaction. In the case of a transaction in stock options, the premium is equal to the agreed upon premium per unit multiplied by the unit of trading for the series of options multiplied by the number of contracts subject to the matched trade [Exchange transaction]. As used in respect of any matched trade in [Exchange transaction] BOUNDS, the word “premium” means the trade price.

(9) – (11) [no change]

Proprietary Futures Professional Account

(12) The term “proprietary futures professional account” in respect of a Clearing Member means an account of the Clearing Member on the records of the Corporation which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of futures professionals who are not futures customers.

Proprietary Market-Maker; Proprietary Market-Maker Account

(13) The term “proprietary Market-Maker” in respect of a Clearing Member carrying an account that is not required to be segregated under Section 4d of the Commodity Exchange Act means a Market-Maker that is (A) a non-customer of such Clearing Member or (B) a Related Person of such Clearing Member that (i) is not a customer of such Clearing Member for purposes of Rule 15c3-3 of the Securities and Exchange Commission, (ii) does not carry the accounts of persons who are customers of such Market-Maker for purposes of Rule 15c3-3, and (iii) has consented to be treated as a proprietary Market-Maker for purposes of the By-Laws and Rules. The term “proprietary Market-Maker” shall include any participant, as such, in an account that is not required to be segregated under Section 4d of the Commodity Exchange Act of which 10% or more is owned by a proprietary Market-Maker. The term “proprietary Market-Maker account” means an account established by a Clearing Member which is confined to the matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of a proprietary Market-Maker.

(14) – (15) [no change]

Purchasing Clearing Member

(16) The term “Purchasing Clearing Member” means the Clearing Member acting as, or on behalf of, the purchaser of a cleared contract [in an Exchange transaction].

(17) [no change]

Q. [no change]

R.

(1) – (4) [no change]

Reporting Authority

(5) When used in respect of any cash-settled contract, the term “reporting authority” shall mean the source [, designated by the Exchange or other market on which such contracts are traded,] that is relied upon by the Corporation as the official source for the current price or value of the underlying interest.

(6) [no change]

Restricted Lien

(7) The term “restricted lien” means a security interest of the Corporation in specified assets (including any proceeds thereof) in an account of a Clearing Member with the Corporation as security for the Clearing Member’s obligations to the Corporation arising from such account or, to the extent so provided in the By-Laws or Rules, a specified group of accounts that includes such account including, without limitation, obligations in respect of all matched trades [Exchange transactions] effected through such account or group of accounts, short positions maintained in such account or group of accounts, and exercise notices assigned to such account or group of accounts.

(8) [no change]

Return

(9) The term “Return” means the process by which a Carrying Clearing Member transfers back to an Executing Clearing Member, for one or more reasons specified in the CMTA Agreement between the Clearing Members, a position resulting from a matched trade [an Exchange transaction] transferred by the Executing Clearing Member to an account of the Carrying Clearing Member.

(10) [no change]

S.

(1) – (3) [no change]

Segregated Futures Account

(4) The term “segregated futures account” in respect of a Clearing Member means an account of the Clearing Member on the records of the Corporation which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of futures customers.

Segregated Futures Professional Account

(5) The term “segregated futures professional account” in respect of a Clearing Member means an account of the Clearing Member on the records of the Corporation which is confined to matched trades [Exchange transactions] cleared and positions carried by the Clearing Member on behalf of futures professionals who are futures customers. A segregated futures professional account is a type of segregated futures account.

(6) [no change]

Seller

(7) The term “seller” means, as the context requires, a person with a short position in a future or a person selling a future in a matched trade [an Exchange transaction].

Selling Clearing Member

(8) The term “Selling Clearing Member,” in respect of a matched trade [an Exchange transaction] in options or BOUNDS, means the Writing Clearing Member and, in respect of a matched trade [an Exchange Transaction] in futures, means the Clearing Member acting as, or on behalf of, the seller.

(10) – (27) [renumbered as (9) – (26); otherwise no change]

T.**Trade Date**

(1) The term “trade date” in respect of any matched trade effected on or through the facilities of an Exchange [Exchange transaction] means the day on which such transaction occurred except that: (i) in the case of classes of options that are cleared through ICS, the trade date in respect of transactions in such options that are effected in trading sessions conducted after 3:00 P.M. Central Time (4:00 P.M. Eastern Time) shall be deemed to be the business day following, and (ii) the trade date in respect of matched trades [Exchange transactions] in cleared contracts that are effected in trading sessions beginning on one calendar day and ending on the next calendar day shall be deemed to be the calendar day on which such trading ends. The term

“trade date” in respect of any matched trade in OTC options means the day on which such transaction is accepted by the Corporation for clearance.

Trade Price

(2) The term “trade price” in respect of a matched trade [an Exchange transaction] in market baskets of a particular class means the price of such market baskets agreed upon in such transaction. The term “trade price” in respect of a matched trade [an Exchange transaction] in BOUNDS means the price of such BOUNDS agreed upon in such transaction.

(3) – (8) [no change]

U. [no change]

V.

Variable Terms

(1) The term “variable terms” in respect of a series of option contracts other than OTC options means the name of the underlying interest, the exercise price (or, in respect of a series of delayed start options that does not yet have a set exercise price, the exercise price setting formula and exercise price setting date), the index value determinant and the index multiplier (in the case of a flexibly structured index option), the cap interval (in the case of a capped option) and the expiration date of such option contract. The term “variable terms” in respect of a series of OTC options means the terms of such options that are permitted to be negotiated bilaterally between the parties within the range of values specified by the Corporation therefor as set forth in the By-Laws and Rules. “Variable terms,” when used in respect of a series of futures means the name of the underlying interest, the maturity date, the method of determining the final settlement price, and the series marker, if any, and in the case of a flexibly structured index future, the index value determinant and the index multiplier.

(2) – (3) [no change]

W.

(1) – (2) [no change]

Writing Clearing Member

(3) The term “Writing Clearing Member” means the Clearing Member acting as, or on behalf of, the writer (as defined, in the case of, in this Article I, and in the case of BOUNDS, in Article XXIV of the By-Laws) of a cleared contract [in an Exchange transaction].

X – Z. [no change]

* * *

ARTICLE V

CLEARING MEMBERS

* * *

Qualifications

SECTION 1. (a) – (d) [no change]

...Interpretations and Policies

.01 - .04 [no change]

.05 Additional Membership Criteria

If the Membership/Risk Committee determines that the applicant's financial or operational condition, in relation to the business that the applicant is expected to transact with the Corporation, makes it necessary or advisable, for the protection of the Corporation, Clearing Members, or the general public, the Membership/Risk Committee may recommend to the Board of Directors that (i) additional financial requirements be imposed on an applicant for clearing membership, including, but not limited to, requiring such applicant to increase its net capital or to make and maintain an initial margin deposit, or (ii) restrictions be imposed on the applicant's clearance of matched trades [Exchange transactions]. The Board of Directors shall independently review such recommendation and shall determine in its discretion whether to impose such requirements or restrictions. Additional requirements or restrictions imposed pursuant to this Section shall remain in force for the period determined by the Board of Directors, but in any event not later than the end of the first three calendar months commencing after the applicant's admission to clearing membership. The imposition of additional requirements or restrictions pursuant to this Section shall not preclude the Corporation from imposing contemporaneous requirements or restrictions pursuant to other provisions of the By-Laws and Rules, including without limitation, Rule 305.

.06 - .09 [no change]

.10 Designation as an OTC Index Options Clearing Member

In order to be designated as an OTC Index Options Clearing Member, a Clearing Member must (i) be a broker-dealer registered under Section 15(b)(1) or (2) of the Securities Exchange Act of 1934 or a Non-U.S. Securities Firm, (ii) execute and maintain in effect such agreements and other documents as the Corporation may prescribe (including, for purposes of clearing OTC index options on indices published by the Standard & Poor's Financial Services LLC ("S&P"), a

short-form index license agreement in the form specified from time to time by S&P); (iii) be a user or participant in an OTC Trade Source for the purpose of affirming and submitting matched trades to the Corporation for clearance; and (iv) meet such other requirements as the Corporation may specify. An OTC options Clearing Member shall continue to comply with all conditions described above until the Clearing Member has closed out all open positions in OTC options.

Conditions to Admission

SECTION 3. No applicant shall be admitted as a Clearing Member until the applicant has deposited with the Corporation its initial contribution to the Clearing Fund in the amount required by Article VIII of the By-Laws and has signed and delivered to the Corporation an agreement in such form as the Board of Directors shall require, including applicant's agreements (a) to clear through the Corporation, either directly or through another Clearing Member, all of its matched trades [Exchange transactions] and all other transactions which the By-Laws or the Rules may require to be cleared through the Corporation, (b) to abide by all provisions of the By-Laws and the Rules and by all procedures adopted pursuant thereto, (c) that the By-Laws and the Rules shall be a part of the terms and conditions of every matched trade [Exchange transaction] or other contract or transaction which the applicant, while a Clearing Member, may make or have with the Corporation, or with other Clearing Members in respect of cleared contracts, or which may be cleared or required to be cleared through the Corporation, (d) to grant the Corporation all liens, rights and remedies set forth in the By-Laws and the Rules, (e) to pay to the Corporation all fees and other compensation provided by or pursuant to the By-Laws and the Rules for clearance and for all other services rendered by the Corporation to the applicant while a Clearing Member, (f) to pay such fines as may be imposed on it in accordance with the By-Laws and the Rules, (g) to permit inspection of its books and records at all times by the representatives of the Corporation and to furnish the Corporation with all information in respect of the applicant's business and transactions as the Corporation or its officers may require, (h) to make such payments to or in respect of the Clearing Fund as may be required from time to time, (i) to comply, in the case of Non-U.S. Securities Firms, with the guidelines and restrictions imposed on domestic broker-dealers regarding the extension of credit, as provided by Section 7 of the Securities Exchange Act of 1934 and Regulation T promulgated thereunder by the Board of Governors of the Federal Reserve System, with respect to any customer account that includes cleared contracts issued by the Corporation, (j) to comply, in the case of Non-U.S. Securities Firms, with the Rules of the National Association of Securities Dealers governing maintenance margin and cut-off times for the submission of exercise notices by customers, and (k) to consent, in the case of Non-U.S. Securities Firms, to the jurisdiction of Illinois courts and to the application of United States law in connection with any dispute with the Corporation arising from membership.

...Interpretations and Policies [no change]

* * *

ARTICLE VI

CLEARANCE OF MATCHED TRADES [EXCHANGE TRANSACTIONS]

* * *

General Clearance Rule

SECTION 1. All matched trades [Exchange transactions] shall be cleared through the Corporation, and no other transaction shall be cleared through the Corporation without its consent.

...Interpretations and Policies

.01 (a) Subject to paragraph (c) below, it is the policy of the Corporation to permit a Clearing Member to submit adjustments to its positions with the Corporation to (1) effect a transfer of accounts between Clearing Members; (2) effect a Return, (3) effect a CMTA Retransfer; (4) correct a bona fide error or omission regarding a matched trade [an Exchange transaction] previously submitted to the Corporation by the Exchange, security futures market, futures market, futures market, [or] international market or OTC Trade Source on which such matched trade [Exchange transaction] occurred or was affirmed; (5) grant a request for offset pursuant to Rule 1306; and (6) effect a retender in connection with the settlement of a physically-settled commodity future pursuant to Rule 1307. Such data shall be submitted in such form and within such times as the Corporation shall prescribe. Such adjustments shall be treated as matched trades [Exchange transactions] for the purposes of Sections 15 and 16 of Article VI of the By-Laws and for the purposes of other sections of Article VI except where the context otherwise requires. Notwithstanding the foregoing, adjustment of positions in OTC Options shall be a manual process and subject to such procedures as the Corporation may specify from time to time.

(b) – (c) [no change]

.02 On an expiration date, a Clearing Member may submit adjustments to its positions only to correct bona fide errors or omissions with respect to matched trades [Exchange transactions] in expiring options series. Such adjustments shall be submitted in such form and at such times as may be prescribed by the Corporation but no later than the deadline for submitting exercise instructions prescribed pursuant to Rule 805(b).

Responsibility of Clearing Members for Matched Trades [Exchange Transactions]

SECTION 2. Every Clearing Member shall be responsible for the clearance of the matched trades [Exchange transactions] of the Clearing Member and of the matched trades [Exchange

transactions] transferred to one of its accounts pursuant to a registered CMTA arrangement as further specified in Rule 403.

Maintenance of Accounts

SECTION 3. Every Clearing Member may establish and maintain with the Corporation one or more of the following accounts:

(a) A firm account, which shall be confined to (i) the matched trades [Exchange transactions] in cleared securities other than security futures of such Clearing Member's non-customers, (ii) the matched trades [Exchange transactions] in (x) futures other than security futures and (y) futures options and commodity options of persons whose transactions are not required to be treated as the transactions of futures customers, and (iii) the matched trades [Exchange transactions] in security futures of persons whose transactions are not required to be treated as the transactions either of securities customers or of futures customers. The Clearing Member, on behalf of itself and each other non-customer on whose behalf positions may be maintained in the firm account, agrees that the Corporation shall have a general lien on all positions and on all other securities, margin and other funds and property in such account, the Corporation shall have the right to net all writing transactions against all purchase transactions effected in such account in accordance with the Rules, and the Corporation may close out the positions in the account and apply the proceeds thereof at any time without prior notice to the Clearing Member or any other non-customer. Such firm account shall be a "firm lien account." The Corporation may also permit each Clearing Member to establish a "firm non-lien account," which shall be confined to those matched trades [Exchange transactions] of non-customers of the Clearing Member in respect of which the Clearing Member does not intend to give the Corporation a lien on the segregated long positions in the account (although the Corporation shall have a restricted lien on the unsegregated long positions in securities options and on other securities (including security futures) therein and the proceeds thereof and a general lien on all other property (other than segregated long positions) in such account. The firm non-lien account shall be subject to the same margin requirements as the Clearing Member's customers' account.

(b) A separate Market-Maker's account, which shall be confined to the matched trades [Exchange transactions] of the Market-Maker for which it is established. In addition, a Clearing Member who is registered with a Securities Exchange or security futures market as a Market-Maker may maintain a separate Market-Maker's account, which shall be confined to such Clearing Member's matched trades [Exchange transactions] as such Market-Maker (including the matched trades [Exchange transactions] of a specialist unit in which such Clearing Member is a participant). The Clearing Member agrees, and represents to the Corporation that it has obtained the agreement of each Market-Maker on whose behalf positions may be maintained in a Market-Maker's account, that (i) the Corporation shall have a restricted lien on long positions in securities options and on other securities (including security futures) in such Market-Maker's account and the proceeds thereof and a general lien on all other funds and property in such Market-Maker's account, (ii) the Corporation shall have the right to net all writing transactions against all purchase transactions effected in such account in accordance with the Rules, and (iii) the Corporation may close out the positions in the account, and apply the proceeds thereof, at any

time without prior notice to the Clearing Member or Market-Maker, and (iv) notwithstanding the provisions of clause (i) hereof, if the Market-Maker is the Clearing Member or a proprietary Market-Maker, the Corporation shall have a general lien on all positions and on all other securities, margin, and other funds and property in such account, and the account shall be a “firm lien account.”

(c) A combined Market-Makers’ account, which shall be confined to the matched trades [Exchange transactions] of the Market-Makers for which it is established. No matched trades [Exchange transactions] of the Clearing Member or proprietary Market-Makers shall be included in a combined Market-Makers’ account that is used for the matched trades [Exchange transactions] of Market-Makers that are not proprietary Market-Makers. Likewise, no matched trades [Exchange transactions] of associated Market-Makers shall be included in a combined Market-Makers’ account that is used for the matched trades [Exchange transactions] of Market-Makers that are not associated Market-Makers. The Clearing Member agrees, and represents to the Corporation that it has obtained the agreement of each Market-Maker on whose behalf positions may be maintained in a combined Market-Makers’ account, that (i) the positions of such Market-Maker may be commingled in a combined Market-Makers’ account with the positions of the Clearing Member acting as Market-Maker or of other proprietary Market-Makers if such Market-Maker is a proprietary Market-Maker; with the positions of other associated Market-Makers if such Market-Maker is an associated Market Maker, or with other Market-Makers that are not proprietary or associated Market-Makers if such Market-Maker is not a proprietary or associated Market-Maker; (ii) the Corporation shall have a restricted lien on all long positions in securities options and on other securities (including security futures) in such combined Market-Makers’ account and the proceeds thereof and a general lien on all other funds and property in such combined Market-Makers’ account, (iii) the Corporation shall have the right to net all writing transactions against all purchase transactions effected in such account in accordance with the Rules, (iv) the Corporation may close out the positions in the account, and apply the proceeds thereof, at any time without prior notice to the Clearing Member or Market-Maker, and (v) notwithstanding the provisions of clause (i) hereof, if a combined Market-Makers’ account is confined to the matched trades [Exchange transactions] of the Clearing Member and proprietary Market-Makers, the Corporation shall have a general lien on all positions and on all other securities, margin, and other funds and property in such account, and the account shall be a “firm lien account.”

(d) [no change]

(e) Every Clearing Member conducting a public business in which it effects matched trades [Exchange transactions] for securities customers shall also establish and maintain a customers’ account, which shall be confined to the matched trades [Exchange transactions] of such Clearing Member’s securities customers. The Clearing Member, on behalf of itself and each securities customer on whose behalf positions may be maintained in the customers’ account, agrees that the Corporation shall have a restricted lien on all unsegregated long positions in securities options and on all other securities (other than segregated long positions) (including security futures) in such account and the proceeds thereof, and on all other funds and property in such account (other than segregated long positions).

(f) Every Clearing Member conducting a public business in which it effects matched trades [Exchange transactions] for futures customers shall also establish and maintain a segregated futures account, which shall be confined to the matched trades [Exchange transactions] in futures, futures options and commodity options of such Clearing Member's futures customers. Notwithstanding the preceding sentence, in the case of those futures customers for which a Clearing Member effects transactions that are futures professionals, the Clearing Member is not required to maintain a segregated futures account under this paragraph (f), but instead may maintain a segregated futures professional account, as provided in paragraph (j) below. The Clearing Member, on behalf of itself and each futures customer on whose behalf positions may be maintained in the segregated futures account, agrees that the Corporation shall have a restricted lien on all positions, margin and other funds and property in such account as security for the Clearing Member's obligations to the Corporation for the positions in that account and in any segregated futures professional account maintained by the Clearing Member pursuant to paragraph (j) below. The Corporation shall comply with applicable regulations of the Commodity Futures Trading Commission pertaining to the holding of segregated funds by clearing organizations of contract markets.

(g) [no change]

(h) A JBO Participants' account, which shall be confined to the matched trades [Exchange transactions] of the JBO Participants for which it is established. The Clearing Member agrees, and represents to the Corporation that it has obtained the agreement of each JBO Participant on whose behalf positions may be maintained in the JBO Participants' account, that (i) the positions of such JBO Participant may be commingled with the positions of other JBO Participants, (ii) the Corporation shall have a restricted lien on all long positions in securities options and on all other securities (including security futures), in such JBO Participants' account and a general lien on all other funds and property in such JBO Participants' account with the Clearing Member (iii) the Corporation shall have the right to net all writing transactions against all purchase transactions effected in such accounts in accordance with the Rules, and (iv) the Corporation may close out positions in the account, and apply the proceeds thereof, at any time without prior notice to the Clearing Member or JBO Participant. Except for purposes of Chapter IV of the Rules, or where the context requires otherwise, all provisions in the By-Laws and the Rules which apply to Market-Makers or a Market-Maker account with the Corporation shall be deemed to apply with equal force to JBO Participants and to a JBO Participants' account with the Corporation, and all references in the By-Laws and the Rules to Market-Makers shall be deemed to also refer to JBO Participants.

(i) [no change]

(j) A segregated futures professional account, which shall be confined to the matched trades [Exchange transactions] in futures, futures options and commodity options of the Clearing Member's futures customers who are futures professionals. The Clearing Member, on behalf of itself and each futures professional on whose behalf positions may be maintained in the segregated futures professional account, agrees that the Corporation shall have a restricted lien

on all positions, margin and other funds in such account as security for the Clearing Member's obligations to the Corporation arising from that account and any segregated futures account maintained by the Clearing Member pursuant to paragraph (f) above and that the Corporation may close out the positions in the account and apply the proceeds thereof at any time without prior notice to the Clearing Member or any futures professional. The Corporation shall comply with applicable regulations of the Commodity Futures Trading Commission pertaining to the holding of segregated funds by clearing organizations of contract markets.

(k) A proprietary futures professional account, which shall be confined to the matched trades [Exchange transactions] of futures professionals whose transactions are not required to be treated as the transactions of securities customers or of futures customers. The Clearing Member, on behalf of itself and each other futures professional on whose behalf positions may be maintained in the proprietary futures professional account, agrees that the Corporation shall have a general lien on all positions and on all other securities, margin and other funds in such account, and the Corporation may close out the positions in the account and apply the proceeds thereof at any time without prior notice to the Clearing Member or any futures professional. Such account shall be a "firm lien account."

...Interpretations and Policies:

.01 [no change]

.02 In any "proprietary account" a Clearing Member is permitted to carry both cleared contracts that are "securities" as defined in Section 3(a)(10) of the Securities Exchange Act of 1934 and cleared contracts that are commodity futures, futures options or commodity options subject to regulation under the Commodity Exchange Act, and the margin requirements applicable to any such proprietary account shall be determined under Rule 601 based upon the net liquidating value of all positions carried in the account. Accordingly, all such proprietary accounts are deemed to be held subject to a "cross-margining agreement or similar arrangement" for purposes of Section 561(b)(3)(A) of the United States Bankruptcy Code (11 U.S.C. § 561(b)(3)(A)) and any netting performed between cleared contracts that are securities, on the one hand, and cleared contracts that are commodity futures, futures options or commodity options, on the other, including any close-out netting that is performed in accordance with Section 27 of Article VI of the By-Laws or Chapter XI of the Rules, shall be deemed to occur pursuant to such cross-margining agreement or similar arrangement. For purposes of this interpretation, a "proprietary account" includes (i) a firm account, (ii) a separate Market-Maker's account for which the Market-Maker is a Clearing Member or a proprietary Market-Maker trading for his own account, (iii) a combined Market-Maker's account confined to the matched trades [Exchange transactions] of Market-Makers who are Clearing Members or proprietary Market-Makers trading for their own accounts, (iv) an OCC proprietary X-M account (together with the corresponding proprietary X-M account at a participating futures clearing organization), or (v) a proprietary futures professional account and any other account that does not contain positions or other property of any person who is a "customer" within the meaning of the Commodity Exchange Act and regulations thereunder.

.03 – .07 [no change]

.08 As used in this Section 3: (i) the phrase “all long positions, securities, margin and other funds” is deemed to include any “investment property” as that term is defined in Article 9 of the Uniform Commercial Code (including long and short positions in security futures) and any other asset in the applicable account; (ii) the phrase “obligations to the Corporation in respect of all matched trades [Exchange transactions]” includes any and all obligations arising directly or indirectly from a matched trade [an Exchange transaction], including, without limitation, (a) obligations relating to any long or short position in any cleared contract that is created in a matched trade [an Exchange transaction], (b) any obligation to make a cash payment, or physical delivery of an underlying interest, resulting from the exercise of, assignment of an exercise notice to, or maturity of such a cleared contract, and (c) any fees or charges imposed by the Corporation with respect to such matched trades [Exchange transactions]; and (iii) references to securities or other property “in” an account includes any securities or other property that are identified as deposited as margin in respect of such account.

.09 Notwithstanding anything to the contrary in this Section 3, matched trades in OTC options shall be effected, and positions in OTC options shall be maintained, only in a Clearing Member’s firm account, separate Market-Maker’s account, combined Market-Makers’ account or securities customers’ account, as applicable. Matched trades in certain classes of OTC options, as specified by the Corporation from time to time, for which resulting positions are to be carried in the securities customers’ account must be submitted to the Corporation with a customer identification number assigned by the OTC Trade Source for purposes of identifying the individual customer for whose account the transaction was effected.

Obligation of Purchasing Clearing Members

SECTION 4. The Purchasing Clearing Member in a matched trade [an Exchange transaction] in respect of a cleared contract other than a future shall be obligated to pay the Corporation the amount of the premium agreed upon in such [Exchange] transaction. In the event that the Corporation fails to receive such payment at or before the settlement time, the Corporation shall have the right to apply any funds credited to accounts of the Clearing Member with the Corporation or that are otherwise in the possession or at the disposal of the Corporation to the payment of such premium; provided, however, that the Corporation shall not apply funds in a customers’ account, segregated futures account (including a segregated futures professional account), customers’ lien account, Market-Maker’s account (if the Market-Maker is a customer) or in a combined Market-Makers’ account (if the Market-Makers are customers) for the payment of premiums on transactions in any account other than such account. Notwithstanding any other provision of the By-Laws or Rules, if the Corporation accepts an opening purchase transaction in an account at a time when the Corporation has not received payment of all amounts due from the Purchasing Clearing Member in respect of such account, the long position resulting from the acceptance of such transaction by the Corporation shall be deemed to be an unsegregated long position, and the Corporation shall have the right to close out or, in the case of options, to exercise such long position and to apply the proceeds in accordance with Chapter XI of the Rules.

Obligations of the Corporation

SECTION 5. Upon the acceptance of a matched trade [an Exchange transaction] by the Corporation, the Corporation shall be substituted through novation as the buyer to the seller and the seller to the buyer, the rights of the parties to such transaction shall be solely against the Corporation and the Corporation shall be obligated to the parties in accordance with the provisions of the By-Laws and the Rules. Subject to Sections 7 and 8 of this Article VI, a matched trade [an Exchange transaction] shall be deemed to have been accepted by the Corporation at the [commencement] time specified in this Section 5 for such matched trade [Exchange transaction]. Except as provided (i) in Section 7 of Article XII in respect of futures issued in exchange-for-physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades, (ii) in Section 1 of Article XX in respect of cross-rate foreign currency options, [and] (iii) in Section 1 of Article XXIII in respect of foreign currency index options, and (iv) in this Section 5 in respect of OTC options, the commencement time for a cleared contract is the time at which the Corporation makes available to the Purchasing Clearing Member and the Selling Clearing Member Daily Position Reports reflecting the matched trade [Exchange transaction] in which such cleared contract was purchased, provided that the commencement time for a cleared contract in respect of which the Corporation receives matching trade information on the expiration date or maturity date for such contract, or if such date is not a business day, on the immediately preceding business day, means the close of trading on the Exchange on which such transaction was effected on such expiration or maturity date or immediately preceding business day, as the case may be. The commencement time in respect of an OTC option shall be (a) in respect of OTC options that are submitted to the Corporation for clearing on the origination date, the time at which the Corporation's report of its acceptance of the matched trade in which such contract was created is made available to the Clearing Member within the Corporation's clearing system, and (b) in respect of OTC options that are submitted to the Corporation for clearing on any date other than the origination date, the settlement time for such OTC option. Upon the acceptance of a matched trade [an Exchange transaction] in respect of cleared contracts, the Corporation shall be obligated as follows:

- (a) In an opening purchase transaction, the Corporation shall be obligated to issue to the Purchasing Clearing Member the number of cleared contracts purchased in such [Exchange] transaction.
- (b) In a closing purchase transaction, the Corporation shall be obligated to reduce the Purchasing Clearing Member's short position in the cleared security in which the [Exchange] transaction was effected by the number of contracts purchased in such [Exchange] transaction.
- (c) In an opening or closing writing transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, the Writing Clearing Member the amount of the premium agreed upon in such [Exchange] transaction.

...Interpretations and Policies: [no change]

Issuance of Cleared Contracts

SECTION 6. The Corporation shall be the issuer of all cleared contracts purchased in matched trades [Exchange transactions]. Subject to the provisions of Sections 7 and 8 of this Article VI, a cleared contract shall be issued by the Corporation in every opening purchase transaction at the commencement time for such transaction. Any such cleared contract shall carry the rights and obligations set forth in the By-Laws and Rules applicable to the particular cleared contract and shall contain the variable terms as agreed upon by the Purchasing Clearing Member and Selling Clearing Member (or by Exchange Members authorized to give up the names of such Clearing Members), as shown on the trade information filed by them with the Exchange on which such opening purchase transaction occurred or the OTC Trade Source through which such transaction was affirmed and which is transmitted to the Corporation in a report of matched trades submitted by such Exchange or OTC Trade Source. (In the event of a discrepancy between the trade information filed with the Exchange or OTC Trade Source and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation.) Unless and until a cleared contract is issued as provided by the By-Laws, the Corporation shall have no obligation in respect thereof.

...**Interpretations and Policies** [no change]

Reporting of Matched Trades

SECTION 7. (a) The acceptance of every matched trade [Exchange transaction] and the issuance of every cleared contract by the Corporation as provided in Sections 5 and 6 of this Article VI shall be subject to the condition that the Exchange or OTC Trade Source on which such [Exchange] transaction occurred or was affirmed [occurs] shall have reported to the Corporation, during such times as the Corporation shall prescribe, matching trade information with respect to such transaction showing that the trade information submitted by the Purchasing Clearing Member and the Selling Clearing Member agree:

(i) in the case of option contracts or BOUNDS, as to (1) the identity of the other party to the transaction, (2) in the case of option contracts, the type of option contract, (3) the ticker symbol for the option contract or BOUND, (4) the variable terms of the option contract or BOUND (5) the amount of the premium, (6) the number of contracts or BOUNDS, and (7) the description of the parties as purchaser and writer; and

(ii) in the case of futures, as to (1) the identity of the other party to the transaction, (2) the variable terms, (3) the number of contracts, and (4) the description of the parties as buyer and seller.

(b) The Corporation shall have no obligation to any purchaser, writer, buyer, or seller for any loss resulting from the untimely reporting by an Exchange, [or] market, or OTC Trade Source of any matching trade information or from any error in matching trade information furnished to the Corporation.

(c) An Exchange or OTC Trade Source may instruct the Corporation to disregard a transaction previously reported by such Exchange or OTC Trade Source as a matched trade because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By-Laws and Rules, or (iii) new or revised trade information was required to properly clear the transaction. In accordance with such instruction, the Corporation shall disregard the previously reported transaction and such transaction shall be deemed null and void and given no effect for purposes of the By-Laws and Rules. The Corporation shall have no obligation to any purchaser, writer, buyer, or seller in acting pursuant to an Exchange's or OTC Trade Source's instruction to disregard a previously reported transaction.

Payments to Corporation

SECTION 8. Except as provided (i) in Section 7 of Article XII in respect of futures issued in exchange-for-physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades, (ii) in Section 5 of Article XX in respect of cross-rate foreign currency options, [and] (iii) in Section 7 of Article XXIII in respect of foreign currency index options and (iv) in this Section 8 with respect to certain OTC options, the Corporation shall have no right to reject any matched trade [Exchange transaction] or to refuse to issue any cleared contract as a consequence of the failure of the Purchasing Clearing Member to pay any amount due to the Corporation at or before the settlement time for such [Exchange] transaction. In the case of any OTC option that is submitted to the Corporation for clearing on any date other than the origination date for such OTC option, the Corporation may refuse to clear any such transaction if the Selling Clearing Member fails to meet its margin obligations to the Corporation in respect of such OTC option at or before 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the business day immediately following the business day on which the transaction in such OTC option was submitted to the Corporation for clearing.

General Rights and Obligations of Holders and Writers

SECTION 9. (a) *Call Option Contracts.* Subject to the provisions of the By-Laws and Rules of the Corporation, the holder of a single American-style call option contract has the right, beginning at the time such option contract is issued pursuant to this Article VI and expiring at the expiration time therefor on the expiration date [the Saturday immediately following the third Friday of the expiration month] of such option contract, to purchase from the Corporation at the aggregate exercise price the number of units of the underlying security represented by such option contract, all in accordance with Exchange Rules and the By-Laws and Rules. Subject to the provisions of the By-Laws and Rules of the Corporation, the holder of a single European-style call option contract has the right on (and only on) the expiration date, expiring at the expiration time therefor on such date, to purchase from the Corporation at the aggregate exercise price the number of units of the underlying security represented by such option contract, all in accordance with Exchange Rules and the By-Laws and Rules. The writer of a single call option

contract is obligated, upon the assignment to him of an exercise notice in respect of such option contract, to deliver the number of units of the underlying security represented by such option contract against payment of the aggregate exercise price, all in accordance with Exchange Rules and the By-Laws and Rules.

(b) *Put Option Contracts.* Subject to the provisions of the By-Laws and Rules of the Corporation, the holder of a single American-style put option contract has the right, beginning at the time such option contract is issued pursuant to this Article VI and expiring at the expiration time therefor on the expiration date [the Saturday immediately following the third Friday of the expiration month] of such option contract, to sell to the Corporation at the aggregate exercise price the number of units of the underlying security represented by such option contract, all in accordance with Exchange Rules and the By-Laws and Rules. Subject to the provisions of the By-Laws and Rules of the Corporation, the holder of a single European-style put option contract has the right on (and only on) the expiration date, expiring at the expiration time therefor on such date, to sell to the Corporation at the aggregate exercise price the number of units of the underlying security represented by such option contract, all in accordance with Exchange Rules and the By-Laws and Rules. The writer of a single put option contract is obligated upon the assignment to him of an exercise notice in respect of such option contract, to pay the aggregate exercise price against delivery of the number of units of the underlying security represented by such option contract, all in accordance with Exchange Rules and the By-Laws and Rules.

(c) [no change]

...**Interpretations and Policies** [no change]

Terms of Cleared Contracts

SECTION 10. (a) [no change]

(b) Except to the extent provided otherwise in the next sentence with respect to delayed start options and except to the extent provided otherwise in the By-Laws and Rules with respect to transactions in flexibly structured options or OTC options, the expiration date and exercise price and, (i) in the case of capped option contracts, the cap interval (as defined, in the case of capped cash-settled option contracts, in Article XVII of the By-Laws), and (ii) in the case of packaged spread options, the base exercise price and spread interval (as defined in Article XXVI of the By-Laws), of option contracts of each series of options shall be determined by each Exchange at the time such series of options is first opened for trading on that Exchange. In the case of delayed start options, the exercise price setting date and the exercise price setting formula of option contracts of each series shall be determined by the Exchange at or before the time such series of options is first opened for trading on that Exchange. The unit of trading of option contracts of each series of options shall be designated by the Corporation prior to the time such series of options is first opened for trading, and in the absence of such designation for a series of options in which the underlying security is a common stock, the unit of trading shall be 100 shares. The unit of trading and exercise price established for an option contract are subject to adjustment in accordance with the By-Laws.

(c) – (f) [no change]

(g) New series of cleared contracts may generally be opened on a same day or next day basis; provided, however, that no series of cleared contracts shall be opened for trading without the consent of the Corporation unless the Corporation shall have received prior notice thereof from the Exchange not later than the applicable deadline for new series established from time to time by the Corporation. The Corporation may require a longer notice period for new series of cleared contracts having as a contract month, maturity date or expiration month a calendar month that is not then, or was not during the prior calendar year, in use for any other series of cleared contract. Series of flexibly structured cleared contracts may be subject to different notice periods than those applicable to other cleared contracts. Notwithstanding any other provision of this Section 10, a new series of OTC options may be opened on the date a matched trade in OTC options is accepted by the Corporation for clearing and all OTC options covering the same underlying interest and having identical terms shall be considered to be in the same series.

...**Interpretations and Policies** [no change]

Closing Sale Transactions

SECTION 15. A Clearing Member shall not effect a closing sale transaction in an account unless, at the time of such transaction, such Clearing Member has a long position in such account for at least the number of cleared contracts involved in such transaction. In the event any [Exchange] transaction of a Clearing Member is recorded as a closing sale transaction in the matching trade information reported in respect of such transaction and the Clearing Member does not have a long position in the applicable account for at least the number of cleared contracts involved in such transaction, then the transaction shall be deemed to be an opening sale transaction to the extent that the number of cleared contracts involved in such transaction exceeds the number of cleared contracts in such long position. A Selling Clearing Member in a closing sale transaction involving a cleared contract agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce the Clearing Member's long position in the account through which the transaction was effected by the number of cleared contracts involved.

Closing Purchase Transactions

SECTION 16. A Clearing Member shall not effect a closing purchase transaction in an account unless, at the time of such transaction, such Clearing Member has a short position in such account for at least the number of cleared securities involved in such transaction. In the event any [Exchange] transaction of a Clearing Member is recorded as a closing purchase transaction in the matching trade information reported in respect of such transaction and the Clearing Member does not have a short position in the applicable account for at least the number of cleared securities involved in such transaction, then the transaction shall be deemed to be an

opening purchase transaction to the extent the number of cleared securities involved in such transaction exceeds the number of cleared securities in such short position.

Certain Delays

SECTION 18. (a) Anything in these By-Laws or the Rules notwithstanding, in the event that the Corporation is unable for any reason (i) to make available, pursuant to Chapter VIII of the Rules, any Expiration Exercise Report, or (ii) to receive properly submitted exercise instructions from Clearing Members, prior to 5:00 P.M. Central Time (6:00 P.M. Eastern Time) on any expiration date that is immediately followed by a day that is not a business day, the Corporation shall make available the delayed report or accept such exercise instructions as soon as practicable thereafter, provided that the Corporation may, in its discretion, defer making the delayed report available or accepting such instructions until 7:00 A.M. Central Time (8:00 A.M. Eastern Time) or as soon as practicable thereafter on the non-business day immediately following such expiration date, or, if such expiration date is followed by more than one consecutive non-business day, on such of those days as the Corporation shall specify. In any such event, Clearing Members shall submit exercise instructions to the Corporation on such non-business day within such times and in such manner as the Corporation shall prescribe. Exercise instructions submitted by a Clearing Member to the Corporation within time limits fixed pursuant to this subsection shall be deemed to have been duly given prior to the expiration of the option contracts to which they relate. Notwithstanding the foregoing, no Expiration Exercise Report shall under any circumstances be made available by the Corporation, nor shall any exercise instructions be accepted by the Corporation, after 11:00 P.M. Central time (12:00 midnight Eastern Time) on the last consecutive non-business day immediately following the expiration date

(b) In the event that the Corporation (i) fails to make Expiration Exercise Reports available to Clearing Members, or is unable to receive properly submitted exercise instructions from Clearing Members in response to such reports, prior to 11:00 P.M. Central Time (12:00 midnight Eastern Time) on the last consecutive non-business day immediately following the expiration date (in cases to which subsection (a) applies) or on the expiration date (in all other cases), and (ii) has failed to prescribe alternative procedures for exercising expiring options pursuant to Rule 805, or determines in its discretion, and so advises Clearing Members, that procedures so prescribed were inadequate, then each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, on a timely basis, an exercise notice with respect to:

(1) every expiring option contract in each of the Clearing Member's accounts which is deemed to have been exercised pursuant to Rule 805(d)(2) as supplemented, in the case of options contracts other than stock options, by the Rules in the Chapter applicable to such other option contracts, except to the extent that the Clearing Member has given the Corporation written instructions, prior to 11:00 P.M. Central Time (12:00 midnight Eastern Time) on the last consecutive non-business day immediately following the expiration date (in cases to which subsection (a) applies) or on the expiration date (in all other cases) to exercise none, or fewer than all, of the option contracts in such series carried in such account; and

(2) every other expiring option contract in any of the Clearing Member's accounts which the Clearing Member has given the Corporation written instructions to exercise prior to 11:00 P.M. Central Time (12:00 midnight Eastern Time) on the last consecutive non-business day immediately following the expiration date (in cases to which subsection (a) applies) or on the expiration date (in all other cases).

Exercise notices deemed to have been tendered pursuant to this subsection shall be deemed to have been duly filed prior to the expiration of the option contracts to which they relate. No exercise notice shall be deemed to have been tendered to the Corporation in respect of any non-equity securities option contract pursuant to subsection (b)(1) above if the Corporation has not established price intervals applicable to such option contract for the purposes of Rule 805(d)(2).

(c) In the event the Corporation should for any reason be unable to assign an exercise notice prior to any hour prescribed in the Rules, the Corporation shall assign such exercise notice as soon as practicable thereafter and shall fix such date of assignment and exercise settlement date as it, in its discretion, shall deem fair and reasonable in the circumstances.

(d) Any action taken by the Corporation pursuant to this Section 18 shall be reported by the Corporation to the Securities and Exchange Commission within two business days thereafter.

(e) Paragraphs (a) and (b) of this Section 18 shall be inapplicable to options that are subject to automatic exercise. Automatic exercise of such options shall be effected without regard to any delay in making available an Expiration Exercise Report with respect to such options.

Clearance of International Transactions

SECTION 20. International transactions shall be cleared in accordance with the By-Laws and Rules; provided, however, that the times specified in the By-Laws and Rules for the availability of any report, or the payment of any amount, due to or from a Clearing Member in respect of international transactions and positions in international options may be altered as determined by the Corporation from time to time in accordance with an international market agreement. All international transactions, positions in international option contracts, margin requirements arising therefrom, and exercises and assignments of exercise notices in respect of international option contracts may be reported separately from other matched trades [Exchange transactions] and option contracts in daily reports, Daily Margin Reports, Exercise Settlement Reports and other reports made available in connection with the By-Laws and Rules and the procedures of the Corporation; and premium, margin and exercise settlements in respect of such international transactions and positions in international option contracts may be conducted in accordance with the By-Laws and Rules.

...Interpretations and Policies [no change]

Classes of Options Cleared Through ICS

SECTION 22. Certain classes of options may from time to time be designated by the Corporation for clearance through ICS. Positions in, and exercises and assignments of exercise notices in respect of, classes of options cleared through ICS may be reported to Clearing Members in reports that are separate from similar reports relating to other classes of options, and reports relating to classes of options cleared through ICS may be distributed to Clearing Members at times other than the times when reports relating to other classes of options are distributed. The deadline for filing of exercise notices in respect of options cleared through ICS may be earlier than the deadline in respect of other classes of options. Except as otherwise expressly provided or where the context clearly requires otherwise, all matched trades [Exchange transactions] cleared through ICS that take place in trading sessions conducted after 3:00 P.M. Central Time (4:00 P.M. Eastern Time) shall be deemed for purposes of the By-Laws and Rules to have been effected on the following business day.

...**Interpretations and Policies** [no change]

Close-Out Netting

SECTION 27. (a) *Default or Insolvency of the Corporation.* If at any time the Corporation: (i) fails to comply with an undisputed obligation to pay money or deliver property to a Clearing Member under the By-Laws or Rules for a period of thirty days from the date that OCC receives notice from the Clearing Member of the past due obligation, (ii) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition presented against it, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the Corporation's winding-up or liquidation, or (iii) takes corporate action to authorize any proceeding or petition described in clause (ii) above, the Corporation or its representative shall promptly notify the Securities and Exchange Commission, the Commodity Futures Trading Commission, all Clearing Members, any clearing organizations with which the Corporation has cross-margining or cross-guarantee arrangements, and all Exchanges, futures markets and security futures markets for which the Corporation clears matched trades [Exchange transactions] and all OTC Trade Sources from which OCC accepts matched trades for clearance.

(b) *Notice of Termination.* Upon the occurrence of any event described in clause (i) through (iii) of paragraph (a), a Clearing Member that is neither suspended nor in default with respect to any obligation owing to the Corporation may notify the Corporation in writing of its intention to terminate all cleared contracts and stock loan and borrow positions in all accounts of such Clearing Member; provided that a notice based on the Corporation's failure to comply with an obligation described in clause (i) may only be made by the Clearing Member to whom such obligation is owed. The Corporation shall promptly forward any such notice, specifying the date of receipt thereof, to the Securities and Exchange Commission, the Commodity Futures Trading Commission, all Clearing Members, any clearing organizations with which the Corporation has cross-margining or cross-guarantee arrangements, and all Exchanges, futures markets and security futures markets for which the Corporation clears matched trades [Exchange

transactions] and all OTC Trade Sources from which OCC accepts matched trades for clearance. Such notice shall have the effects hereinafter described in this Section with respect to all Clearing Members, without the necessity of a similar notice being sent by any other Clearing Member. As of the close of business on the third business day following the Corporation's receipt of such notice or such other termination time as may be established by the United States Bankruptcy Code in the case of a proceeding governed by such Code (the "Termination Time"), the Corporation shall accept no more matched trades [Exchange transactions] for clearing, and all pending transactions, positions in cleared contracts and stock loan and borrow positions remaining in all accounts of all Clearing Members at the Termination Time shall be valued as of the Termination Time and liquidated in accordance with this Section. Such liquidated positions shall be netted to the maximum extent permitted by law and the By-Laws and Rules, and settlement of the net amounts shall be effected in the manner provided by this Section in satisfaction of all obligations owing between the Corporation and Clearing Members in respect of such positions. The provisions of this Section, other than paragraph (l) below, shall not apply to the disposition of assets and liabilities in any X-M account provided for in Article VI, Section 24 of the By-Laws. From and after the Termination Time the rights of Clearing Members against the Corporation shall be limited to those set forth in this Section. In the event that a Clearing Member is suspended by the Corporation pursuant to Chapter 11 of the Rules or the Corporation suffers a loss from any cause that is chargeable against the Clearing Fund in accordance with the By-Laws and Rules, whether such suspension or loss occurs before or after the Corporation gives a notice under this paragraph (a), the provisions of paragraph (m) below shall apply.

(c) – (m) [no change]

* * *

ARTICLE VIII

CLEARING FUND

* * *

Maintenance and Purposes of the Clearing Fund

SECTION 1. (a) The Corporation shall maintain a Clearing Fund to which each Clearing Member shall contribute, as provided in this Article VIII, to make good losses suffered by the Corporation (i) as a result of the failure of any Clearing Member to discharge duly any obligation on or arising from any matched trade [Exchange transaction] accepted by the Corporation, (ii) as a result of the failure of any Clearing Member (including any Appointed Clearing Member) or of CDS to perform its obligations (including its obligations to the correspondent clearing corporation) under or arising from any exercised or assigned option contract or any other contract or obligation issued, undertaken, or guaranteed by the Corporation or in respect of which the Corporation is otherwise liable, (iii) as a result of the failure of any Clearing Member to perform any of its obligations to the Corporation in respect of the stock loan and borrow positions of such Clearing Member, (iv) in connection with any liquidation of a Clearing

Member's open positions, (v) in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules, (vi) as a result of the failure of any Clearing Member to make any other required payment or render any other required performance, or (vii) as a result of the failure of any bank or securities or commodities clearing organization to perform its obligations to the Corporation for reasons specified in Section 5 of this Article.

(b) [no change]

Application of Clearing Fund

SECTION 5. (a) If (i) any Clearing Member shall fail to discharge duly any obligation on or arising from any matched trade [Exchange transaction] accepted by the Corporation, (ii) any Clearing Member, (including any Appointed Clearing Member) or of CDS shall fail to perform any obligations (including its obligations to the correspondent clearing corporation) under or arising from any exercised or assigned option contract or any other contract or obligation issued or guaranteed by the Corporation or in respect of which the Corporation is otherwise liable, (iii) any Clearing Member shall fail to perform any obligation to the Corporation in respect of the stock loan and borrow positions of such Clearing Member, (iv) the Corporation shall suffer any loss or expense upon any liquidation of a Clearing Member's open positions, (v) the Corporation shall suffer any loss or expense in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules, or (vi) any Clearing Member shall fail to make any other payment or render any other performance required under the By-Laws or the Rules, then the Corporation shall (after appropriate application of other funds in the accounts of the Clearing Member) apply the Clearing Member's Clearing Fund contribution to the discharge of such obligation, the reimbursement of such loss or expense, or the making of such payment or the funding of such performance. If the sum of all such obligations, losses or expenses, and payments exceeds the sum of the amount of the Clearing Member's total Clearing Fund contribution and the amount of the other funds of the Clearing Member available to the Corporation, and if the Clearing Member fails to pay the Corporation the amount of any such deficiency on demand, the amount of the deficiency shall be paid out of the Clearing Fund and charged on a proportionate basis against all other Clearing Members' computed contributions as fixed at the time, but the Clearing Member who failed to pay the deficiency shall remain liable to the Corporation for the full amount of such deficiency until repayment thereof by such Clearing Member.

For the purposes of this paragraph, any amount owed by the Corporation to a Participating CCO pursuant to a Participating CCO Agreement as the result of the liquidation of sets of X-M accounts shall be deemed to be a loss suffered by the Corporation upon the liquidation of positions in non-equity securities options.

(b) – (g) [no change]

...**Interpretations and Policies** [no change]

Contribution Refund

SECTION 7. Whenever a Clearing Member definitively ceases to be such, the amount of its contribution to the Clearing Fund shall be returned to it, but not until all matched trades [Exchange transactions] and open positions of the Clearing Member from which losses or payments chargeable to the Clearing Fund might result have been fulfilled or closed, or, with the approval of the Corporation, another Clearing Member has been substituted thereon. All amounts chargeable against a Clearing Member's contribution to the Clearing Fund on account of transactions had while it was a Clearing Member, including proportionate charges, shall be deducted from the amount returned.

* * *

ARTICLE XIV

BINARY OPTIONS; RANGE OPTIONS

* * *

Definitions

SECTION 1.

A. – L. [no change]

M.

Multiplier

(1) The term “multiplier” when used in respect of a matched trade [an Exchange transaction] in binary options means the fixed number by which the price agreed upon by the purchaser and seller is multiplied in order to calculate the total purchase price per contract.

N. – O. [no change]

P.

Premium

(1) The term “premium” when used in respect of a matched trade [an Exchange transaction] in binary options or range options means the price, in dollars and cents, agreed upon by the purchaser and seller in the transaction times the multiplier (if applicable) and the number of contracts subject to the [Exchange] transaction.

Q. – Z. [no change]

* * *

ARTICLE XV

FOREIGN CURRENCY OPTIONS

* * *

Definitions

SECTION 1.

A. – O. [no change]

P.

Premium

(1) The term “premium” in respect of a matched trade [an Exchange transaction] in foreign currency options is equal to the price per unit of underlying currency of each such option, multiplied by the unit of trading and by the number of contracts subject to the [Exchange] transaction. Premium may be expressed either in units (including fractions, decimals, or multiples of such units) of the trading currency designated by the Exchange on which such options are traded or as a percentage of the amount of underlying currency covered by the transaction. Premium shall be payable in the currency in which it is expressed.

Q. – R. [no change]

S.

Settlement Time

(1) The term “settlement time” in respect of a matched trade [an Exchange transaction] in foreign currency options settling in the United States means 9:00 A.M. Central time (10:00 A.M. Eastern time) on the first business day immediately following the day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction [Transaction] was effected. The term “settlement time” in respect of a matched trade [an Exchange transaction] in foreign currency options settling outside the United States means 11:00 A.M. local time in the country of origin of the trading currency (*i.e.*, the premium currency), or such other time as the Corporation may specify, on the first foreign business day in that country immediately following the business day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction was effected.

T. – Z. [no change]

* * *

ARTICLE XVI

YIELD BASED TREASURY OPTIONS

* * *

Definitions

SECTION 1.

(a) – (k) [no change]

Premium

(l) The term “premium” in respect of a matched trade [an Exchange transaction] in yield-based Treasury options means the “per unit” price of each such option, as agreed upon by the purchaser and seller in such transaction, times the multiplier and the number of options subject to the transaction.

(m) – (n) [no change]

* * *

ARTICLE XVII

INDEX OPTIONS AND CERTAIN OTHER CASH-SETTLED OPTIONS

* * *

Introduction

By-Laws in this Article are applicable only to cash-settled options that are not specifically addressed elsewhere in these By-Laws, including Exchange-listed index options, OTC index options [options where the underlying interests are indexes] and cash-settled commodity options other than binary options or range options (which are governed by the provisions of Article XIV). Section 1 of Article XII is also applicable to cash-settled commodity options. By-Laws in Articles I-XI are also applicable to cash-settled options, in some cases supplemented by one or more By-Laws in this Article, except for By-Laws that have been replaced in respect of such options by one or more By-Laws in this Article and except where the context otherwise requires. Whenever a By-Law in this Article supplements or, for purposes of this Article, replaces one or

more By-Laws in Articles I-XI, that fact is indicated in brackets following the By-Law in this Article.

Definitions

SECTION 1.

A. – B. [no change]

C.

(1) – (3) [no change]

Class of Options

(4) The term “class of options” used in respect of cash-settled options means all such options of the same type and style (and, in addition, in the case of flexibly structured index options and OTC index options, having the same index value determinant) and having the same underlying interest, provided that OTC index options shall constitute a separate class of options from other cash-settled options of the same type and style and having the same underlying interest.

Current Underlying Interest Value; Current Index Value

(5) The term “current underlying interest value” when used in respect of cash-settled options means the current value or level of the underlying interest at a point in time as reported by the reporting authority. The current underlying interest value in respect of an index option is sometimes also referred to as the “current index value.” Subject to the provisions of Section 5 of this Article, the term “current index value,” in respect of any underlying index on a given day, means the level of such index at the close of trading on such day, or if such day is not a trading day, on the immediately preceding trading day, or, in the case of an index option other than an OTC index option, any multiple or fraction thereof specified by the Exchange, as such value is reported by the reporting authority. Notwithstanding the foregoing, but subject to the provisions of Section 4 of this Article, the current index value for an index underlying a flexibly structured index option or an OTC index option on the expiration date shall be determined in accordance with the index value determinant.

D. [no change]

E.

(1) – (2) [no change]

Expiration Date

(3). The term “expiration date” in respect of cash-settled options other than flexibly structured options or OTC index options means the Saturday following the third Friday of the expiration month, except that in respect of an option contract that is identified by an Exchange as having an expiration date different from the Saturday following the third Friday of the expiration month, the term “expiration date” shall mean such date as identified by the Exchange at or prior to the time of inception of trading of the class or series, as applicable. The expiration date of an OTC index option shall be determined as set forth in Section 6 of this Article.

Expiration Time

(4) The term “expiration time” in respect of an OTC index option contract means 7:00 P.M. Central Time (8:00 P.M. Eastern Time).

F. – H. [no change]

I.

Index Component

(1) [no change]

[Index Value Determinant]³

[(3) The term “index value determinant” used in respect of settlement of flexibly structured index option contracts means the method for determining the current index value on the expiration date as that method is reported to the Corporation by the Exchange on which the option was purchased.]

J. – O. [no change]

P.

Premium

(1) The term “premium” in respect of a matched trade [an Exchange transaction] in cash-settled options means the price of each such option (expressed in points), as agreed upon by the purchaser and seller in such transaction, times the multiplier or unit of trading, as applicable, and the number of options subject to the transaction.

Put

³ This definition is proposed to be deleted because it is redundant to the definition of the same term in Article I of the By-Laws.

(2) [no change]

Q. [no change]

R.

Reference Index

(1) [no change]

Reporting Authority

(2) The term “reporting authority” in respect of cash-settled options other than OTC index options means the institution or reporting service designated by an Exchange as the official source for the current value of a particular underlying interest or reference variable. Unless another reporting authority is identified by the listing Exchange for a class of cash-settled options, the listing Exchange will be the reporting authority. In respect of OTC index options, the reporting authority shall be the institution or reporting service designated by the Corporation as the official source for the current value of a particular underlying interest or reference variable.

S.

Series of Options

(1) The term “series of options” used in respect of cash-settled options other than OTC index options means all such options of the same class with the same exercise price (or, in the case of delayed start options that do not yet have a set exercise price, the same exercise price setting formula and exercise price setting date), cap price (if any), unit of trading (if any), expiration date, and multiplier; provided that if an Exchange shall adopt a rule superseding Section 1 C.(5) of this Article, index options (other than OTC index options) to which such Exchange rule applies shall be deemed to be of a different series than otherwise identical index options to which such rule does not apply. In respect of OTC index options, the term “series of options” means all such options of the same class and having identical variable terms.

T. – Z. [no change]

General Rights and Obligations of Holders and Writers of Cash-Settled [Index] Options

SECTION 2. [no change]

Adjustments⁴

SECTION 3. (a) Section 11A of Article VI of the By-Laws shall not apply to cash-settled option contracts.

(b) In the case of cash-settled options that have a single commodity as their underlying interest, except as expressly provided otherwise in the By-Laws or Rules relating to a particular cleared contract, determinations as to whether and how to adjust the terms of such options to reflect events affecting the underlying interest shall be made by the Corporation based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of such options, the maintenance of a fair and orderly market in such options and consistency of interpretation and practice.

(c) No adjustments will ordinarily be made in the terms of index option contracts in the event that index components are added to or deleted from the underlying index or reference index or when the relative weight of one or more such index components has changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion, or change causes significant discontinuity in the level of the underlying index, the Corporation may adjust the terms of the affected index option contracts by adjusting the index multiplier and/or exercise price with respect to such contracts or by taking such other action as the Corporation in its sole discretion deems fair to both the holders and writers of such contracts.

(d) If an Exchange shall increase or decrease the index multiplier for any index option contract, or the reporting authority shall change the method of calculation of an underlying index or reference index so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the index securities, or the Corporation shall substitute one underlying index or reference index for another pursuant to paragraph (e) [(d)] of this Section 3, the Corporation shall make such adjustments in the number of outstanding affected options or the exercise prices of such options or such other adjustments, if any, as the Corporation in its sole discretion deems fair to both the holders and the writers of such options.

(e) In the event the Corporation determines that: (i) publication of an underlying index or reference index has been discontinued; (ii) an underlying index or reference index has been replaced by another index, or (iii) the composition or method of calculation of an underlying index or reference index is so materially changed since its selection as an underlying index or reference index that it is deemed to be a different index, the Corporation may substitute another index (a "successor index") as the underlying index or reference index. A successor index shall be reasonably comparable, as determined by the Corporation in its discretion, to the original underlying index or reference index for which it substitutes. An index may be created specifically for the purpose of becoming a successor index.

(f) In the event that the value of an underlying relative performance index [[index designed to measure the relative performance of a reference security or reference index in relation to another

⁴ The text of Section 3 as presented in this rule change reflects material that is proposed to be added or deleted, but is not yet approved by the Commission. See SR-OCC-2011-13 A-1.

reference security or reference index (a “relative performance index”)] falls below zero, any such negative value of the index will be deemed by the Corporation to be zero; provided, however, that if it is deemed impractical for systems reasons to have an index value of zero, then any index value of zero or below will be deemed to be an economically nominal positive number. Such an adjustment will have the effect of limiting the maximum exercise settlement amount for in-the-money put options on such indexes to the difference between the exercise price and the nominal positive number substituted for the actual index value (times the applicable multiplier). Adjustment in the value of an underlying relative performance index pursuant to this paragraph shall not require any action of an adjustment panel.

(g) In the event that any individual reference security in an underlying relative performance index [(as defined in the preceding paragraph)] is eliminated as the result of a cash-out merger or other event, the reporting authority may cease to publish the index. In that case, the exercise settlement value of the options would become fixed based upon the last published value for the index, and the Exchange on which such options are traded may determine to accelerate the expiration date for such options (and, in the case of European-style options, their exercisability). The expiration date for such options will ordinarily be accelerated to fall on the next regularly scheduled expiration date for the same class of options or such other date as the Corporation may establish in consultation with the Exchange on which such options are traded.

(h) Except in the case of OTC index options or any of the events described [as otherwise provided] in paragraphs (f) and (g) of this Section 3, determinations with respect to adjustments pursuant to this Section shall be made by an adjustment panel. The provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustment panels convened pursuant to this Article XVII, Section 3(g).

...Interpretations and Policies:

.01 For the elimination of doubt, all adjustments to the terms of outstanding cleared contracts in OTC index options shall be made by the Corporation in its sole discretion, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers (or purchasers and sellers) of the affected contracts, the maintenance of a fair and orderly market in the affected contracts, consistency of interpretation and practice, and efficiency of exercise settlement procedures. The Corporation may, but shall not be obligated to, adjust the terms of outstanding cleared contracts in OTC index options by following determinations made by the Securities Committee and adjustment panel with respect to adjustments of Exchange-listed index options covering the same underlying interest.

[Section 3 of this Article replaces Section 11A of Article VI of the By-Laws.]

Unavailability or Inaccuracy of Current Underlying Interest Value

Effective for Series of Options Opened for Trading After September 16, 2000

SECTION 4. (a) If the Corporation shall determine that the primary market(s) (as determined by the Corporation) for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and Rules, the Corporation shall be empowered to do any or all of the following with respect to any series of options on such index (“affected series”):

(1) The Corporation may suspend the settlement obligations of exercising and assigned Clearing Members with respect to cash-settled option contracts of the affected series. At such time as the Corporation determines that the required value is available or the Corporation has fixed the exercise settlement amount pursuant to subparagraph (2) of this Section, the Corporation shall fix a new date for settlement of exercised option contracts.

(2) The Corporation may fix the exercise settlement amount for exercised contracts of an affected series. In the case of cash-settled securities options other than OTC index options [options that are securities], the exercise settlement amount shall be fixed by a panel consisting of two designated representatives of each Exchange on which the affected series is open for trading, one of whom shall be such Exchange’s representative on the Securities Committee provided for in Article VI, Section 11 of the By-Laws) and the Chairman of the Corporation. In the case of OTC index options or cash-settled commodity options, unless the By-Laws or Rules specifically provide otherwise in respect of a particular class of such options, the exercise settlement amount shall be fixed by the Corporation [unless the By-Laws or Rules specifically provide otherwise in respect of a particular class of commodity options]. The panel (or the Corporation, as the case may be) shall fix the exercise settlement amount based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of options of the affected series, the maintenance of a fair and orderly market in such affected series of options, consistency of interpretation and practice, and consistency with actions taken in related futures or other markets. Without limiting the generality of the foregoing, the panel (or the Corporation) may fix the exercise settlement amount using: (i) the reported price or value for the relevant security(ies), commodity(ies) or underlying interest at the close of regular trading hours (as determined by the Corporation) on the last preceding trading day for which such a price or value was reported by the reporting authority; (ii) the reported price or value for the relevant security(ies), commodity(ies) or underlying interest at the opening of regular trading hours (as determined by the Corporation) on the next trading day for which such an opening price or value is reported by the reporting authority; or (iii) a price or value for the relevant security(ies), commodity(ies) or underlying interest at such other time, or representing a combination or average of prices or values at such time or times, as the Corporation deems appropriate. The provisions of Article VI, Section 11(c) of the By-Laws with respect to the vote required to constitute the determination of an adjustment panel, the voting rights of members of adjustment panels, the ability of such panels to conduct their business by telephone, and the ability of the Chairman of the Corporation

and Exchange representatives to designate others to serve in their place on such panels shall apply equally to panels convened pursuant to this Section. Every determination pursuant to this Section shall be within the sole discretion of the Corporation or the panel making such determination, as the case may be, and shall be conclusive and binding on all investors and not subject to review.

(3) [no change]

(b) [no change]

...**Interpretations and Policies** [no change]

Time for Determination of Current Index Value

SECTION 5. (a) An Exchange may provide by rule that the current index value for the index underlying any class of index options traded on such Exchange, either generally or on particular trading days, shall be determined by reference to the reported level of such index at a time or times other than the close of trading. Similarly, the parties to a transaction in OTC index options may elect to base the current index value of the underlying index on a given day on the reported level of the underlying index at either the open or close of trading on such day. Any such Exchange rule or election by the parties to a transaction in OTC index options shall supersede any contrary provision in Section 1 C.(5) of this Article.

(b) [no change]

OTC Index Options

SECTION 6. (a) *Variable Terms.* The variable terms that are negotiated bilaterally between the parties to a transaction in OTC index options shall include (i) the type of option; (ii) the style of option; (iii) the underlying index, selected only from among those underlying indices approved by the Corporation and which the Bylaws and Rules specifically allow to be selected as an underlying index for an OTC index option; (iv) the premium (stated in U.S. dollars and cents); (v) the expiration date; (vi) the exercise price (stated in U.S. dollars and cents); (vii) the index multiplier; and (viii) the index value determinant; subject in each case to the limitations generally applicable to such variable terms as set forth in paragraph (b) below and any additional specific requirements applicable to OTC index options on a particular underlying index as set forth in the interpretations and policies following this Section 6 or as otherwise published by the Corporation on its website.

(b) *General Limitations on Variable Terms.* In respect of an OTC index option contract: (i) the type of option may be either a put or a call; (ii) the style of option may be either American-style or European-style; (iii) the underlying index may be any index identified by the Corporation as a permissible underlying index; (iv) the premium shall be stated in U.S. dollars and cents; (v) the expiration date shall be a business day that is, at the maximum, no more than fifteen years from the trade date of the contract; (vi) the exercise price shall be stated in U.S. dollars and cents); and

(vii) the current index value at expiration may be determined based on either the opening index value or closing index value.

(c) *Acceptance of Matched Trades in OTC Index Options for Clearing.* If the matched trade information in respect of a transaction in OTC index options reported by an OTC Trade Source to the Corporation passes the Corporation's validation process, the Corporation shall accept such matched trade for clearing. The Corporation shall reject the transaction if the Corporation determines that: (i) any variable term of the contract does not comply with any applicable limitations established by the Corporation; (ii) the transaction would violate any applicable restrictions imposed on any of the Clearing Members for whose accounts the transaction is submitted to the Corporation for clearing (including, but not limited to, one or both of such Clearing Members are not approved to clear OTC index options); (iii) the information in the matched trade report submitted by the OTC Trade Source to the Corporation contains unresolved errors or omissions; or (iv) the information in the matched trade does not meet any other applicable criteria set forth in the By-Laws and Rules or procedures of the Corporation. Any transactions in OTC index options submitted to the Corporation for clearing that are rejected by the Corporation shall have no further effect as regards the Corporation and shall be deemed null and void and given no effect for purposes of the By-Laws and Rules.

(d) *The Role of the Corporation.* Commencing at the time at which the Corporation accepts a matched trade in OTC index options for clearing, the Corporation shall be substituted through novation as the seller to the Purchasing Clearing Member and the buyer to the Selling Clearing Member, and shall be the obligor to the extent set forth in the By-Laws and Rules with respect to obligations owing to persons having positions in such cleared contract. Each Clearing Member agrees with the Corporation that (i) it shall be bound, in accordance with the By-Laws and Rules, by all transactions in OTC index options submitted for its account through an OTC Trade Source and accepted by the Corporation for clearing; and (ii) it shall be bound by the terms of each transaction as reported by the OTC Trade Source to the Corporation and the Corporation shall not be responsible or liable to the Clearing Member for any error or omission in the variable terms or other information reported by the OTC Trade Source in connection with such transaction or for any acts or omission taken or made by the Corporation in reliance on such information.

(e) *Fungibility.* OTC index options of the same series shall be fungible. Positions in OTC index options created in a transaction between two counterparties may be closed out through a closing transaction between one of the parties to the original transaction and a different counterparty.

(f) *Clearing Members' Representations and Warranties.* Upon the submission of a matched trade in OTC index options to the Corporation for clearing, each Clearing Member for whose account the transaction is submitted shall be deemed to represent and warrant to the Corporation that: (i) the Clearing Member's participation in such transaction is in compliance, and the Clearing Member will continue to comply, with all applicable laws and regulations including, without limitation, all applicable rules and regulations of the Securities and Exchange Commission, and the rules of the Financial Industry Regulatory Association and any other regulatory or self-regulatory organization to which the Clearing Member is subject; (ii) in respect of OTC index

options on the S&P 500 Index, the Clearing Member acknowledges the matters described in the disclaimer language set forth below in item .03 of the Interpretations and Policies following this Section 6; and (iii) in the case where the transaction is effected for the account of a customer, the customer is an "Eligible Contract Participant" as defined in Section 3a(65) of the Securities Exchange Act of 1934, as amended. The Clearing Member shall indemnify and hold the Corporation harmless from any claim, liability or expense, including attorneys' fees, which may arise or be asserted as a result of any such representation and warranty being false or of any action brought against OCC alleging that any such representation and warranty is false.

(g) Except as expressly provided in this paragraph or elsewhere in the By-Laws and Rules, and except to the extent inconsistent with the provisions of this Section 6, OTC index options shall be subject to all provisions of the By-Laws and Rules to the extent such provisions are applicable by their terms.

...Interpretations and Policies:

.01 The S&P 500 is approved by the Corporation as an underlying index for OTC index options, as described in Section 6(a)(iii) of this Article XVII. In respect of an OTC index option contract on the S&P 500 Index, (i) the index multiplier shall be fixed at 1, (ii) the expiration date must be within 5 years of the date on which a transaction in such OTC index option is accepted by the Corporation for clearance, and (iii) unless one or the other of the parties to the transaction is entering into the transaction as a closing purchase transaction or a closing sale transaction (provided, in either case, that such closing transaction does not constitute an opening purchase transaction or opening sale transaction a non-proprietary account of one Clearing Member and a closing sale transaction or closing purchase transaction, respectively, for any proprietary account of the other Clearing Member), the expiration date must be at least 125 days, and no more than 15 years, from the origination date. In addition, unless one or more of the parties to the transaction is entering into the transaction as a closing purchase transaction or a closing sale transaction (provided, in either case, that such closing transaction does not constitute an opening purchase transaction or opening sale transaction for a non-proprietary account of one Clearing Member and a closing sale transaction or closing purchase transaction, respectively, for any proprietary account of the other Clearing Member), the minimum "notional value" of a transaction in OTC index options on the S&P 500 Index submitted to the Corporation for clearing shall be: (x) for options with an expiration date that is 275 or fewer days from its origination date, \$500,000 times the value of the S&P 500 Index at the opening of business in New York on the first business day of the calendar year in which the Corporation accepted the transaction for clearing; or (y) for options with an expiration date that is more than 275 but less than 1,101 days from its origination date, at least \$100,000 times the value of the S&P 500 Index at the opening of business in New York on the first business day of the calendar year in which the Corporation accepted the transaction for clearing. The "notional value" of a transaction in an OTC index option on the S&P 500 Index shall equal the quantity of contracts multiplied by the closing value of the S&P 500 index on the date the transaction is accepted by the Corporation for clearing.

.02 For purposes of paragraph (c) of this Section 6, any transaction in OTC index options submitted to the Corporation for clearing that is rejected by the Corporation shall remain subject to any applicable agreement between the original parties to the transaction which, for the avoidance of doubt, may provide that such rejected transaction shall be deemed to constitute a bilateral transaction between the parties subject to such agreements and documentation as the parties have entered into for that purpose or may be deemed to be null and void.

.03 For purposes of clause (ii) of paragraph (f) of this Section 6, the S&P disclaimer reads as follows:

“S&P SHALL OBTAIN INFORMATION FOR INCLUSION IN OR FOR USE IN THE CALCULATION OF THE S&P INDEXES FROM SOURCES WHICH S&P CONSIDERS RELIABLE, BUT S&P DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE S&P INDEXES OR ANY DATA INCLUDED THEREIN AND S&P SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. S&P MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY ANY PERSON OR ANY ENTITY FROM THE USE OF THE S&P INDEXES OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACTS, OR FOR ANY OTHER USE. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE S&P INDEXES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL S&P HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.”

* * *

ARTICLE XX

CROSS RATE FOREIGN CURRENCY OPTIONS

* * *

Definitions

SECTION 1.

A. – B. [no change]

C.

(1) – (2) [no change]

Commencement Time

(3) The term “commencement time” in respect of a cross-rate foreign currency option means the time that is three hours following the settlement time of the matched trade [Exchange transaction] in which such cross-rate foreign currency option was purchased.

D. – O. [no change]

P.

Premium

(1) The term “premium” in respect of a matched trade [an Exchange transaction] in cross-rate foreign currency options means the price per unit of underlying currency of each such option multiplied by the unit of trading and by the number of contracts subject to the [Exchange] transaction. Premium may be expressed either in units (including fractions, decimals, or multiples of such units) of the trading currency designated by the Exchange on which such options are traded or as a percentage of the underlying currency. Premium shall be payable in the currency in which it is expressed.

(2) [no change]

Q. – R. [no change]

S.

Settlement Time

(1) The term “settlement time” in respect of a matched trade [an Exchange transaction] in cross-rate foreign currency options means 11:00 A.M. local time in the country of origin of the trading currency (*i.e.*, the premium currency), or such other time as the Corporation may specify, on the first foreign business day in that country immediately following the business day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction was effected.

T. – Z. [no change]

Extraordinary Events

SECTION 3. (a) [no change]

(b) If the Corporation shall in its discretion determine that extraordinary events would prevent the orderly settlement of matched trades [Exchange transactions] in, or exercises of, cross-rate foreign currency option contracts in the manner contemplated by the Rules, or impose undue burdens on the Corporation or on Cross-Rate Foreign Currency Clearing Members in connection

therewith, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and the Rules, the Corporation shall be empowered to make such adjustments in premium and exercise settlement procedures for affected option contracts (including, without limitation, the fixing of United States dollar cash settlement prices deliverable (i) in lieu of the trading currency in settlement of matched trades [Exchange transactions] or (ii) in lieu of either the trading currency or the underlying currency (or both) in settlement of exercises) as the Corporation in its sole discretion determines to be fair to the parties to such transactions or exercises.

[Section 3 of this Article replaces Section 19 of Article VI of the By-Laws.]

Payment of Premiums

SECTION 5. The acceptance of every matched trade [Exchange transaction] in cross-rate foreign currency options and the issuance of every such option (other than an option contract for which the commencement time is the close of trading on the business day immediately prior to the expiration date) by the Corporation shall be subject to the condition that the Corporation shall have received payment at or before the settlement time of all premiums denominated in the same trading currency due to the Corporation from the Purchasing Clearing Member in the account in which the [Exchange] transaction is effected. In the event the Corporation fails to receive such payment at or before the applicable settlement time, the Corporation may (either by a general rule or resolution adopted by the Board of Directors or by action of the officers of the Corporation with respect to specific transactions) reject any or all unaccepted opening and closing purchase transactions in such account relating to options denominated in the same trading currency. In the event any transaction is rejected as herein provided, the Corporation shall promptly notify, either orally or in writing, the Purchasing Clearing Member and all Writing Clearing Members involved, and such Writing Clearing Members shall have the remedies, (if any), provided in the Exchange Rules of the Exchange on which such transaction was effected.

[Section 5 of this Article supplements Section 8 of Article VI of the By-Laws.]

* * *

ARTICLE XXII

CASH-SETTLED FOREIGN CURRENCY OPTIONS

* * *

Definitions

SECTION 1.

A. – O. [no change]

P.

Premium

(1) The term “premium” in respect of a matched trade [an Exchange transaction] in cash-settled foreign currency options other than rate-modified foreign currency options means the price (in the designated currency) of each such option, as agreed upon by the purchaser and seller in such transaction, multiplied by the number of units of underlying currency covered by the option and by the number of options subject to the transaction. The term “premium” in respect of a matched trade [an Exchange transaction] in rate-modified foreign currency options means the price (in the designated currency) of each such option, as agreed upon by the purchaser and seller in such transaction, multiplied by the multiplier and by the number of options subject to the transaction.

(2) [no change]

Q. – Z. [no change]

* * *

ARTICLE XXIII

FLEXIBLY STRUCTURED INDEX OPTIONS DENOMINATED IN A FOREIGN

CURRENCY

* * *

Definitions

SECTION 1.

A. – B. [no change]

C.

Commencement Time

(5) The term “commencement time” in respect of [a] an FX Index Option contract means the time that is three hours following the settlement time of the matched trade [Exchange transaction] in which such FX Index Option contract was purchased.

D – O. [no change]

P.

Premium

(1) The term “premium” in respect of a matched trade [an Exchange transaction] in FX Index Options means the price of each such option in the designated currency (expressed in points), as agreed upon by the purchaser and seller in such transaction, times the index multiplier and the number of options subject to the transaction.

(2) [no change]

Q. – R. [no change]

S.

(1) [no change]

Settlement Time

(2) The term “settlement time” in respect of matched trade [an Exchange transaction] in FX Index Options means 11:00 A.M. local time in the country of origin of the trading currency, or such other time as the Corporation may specify, on the first foreign business day in that country immediately following the business day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction was effected.

Extraordinary Events

SECTION 3. (a) [no change]

(b) If the Corporation shall in its discretion determine that extraordinary events would prevent the orderly settlement of matched trades [Exchange transactions] in, or exercises of, FX Index Option contracts in the manner contemplated by the Rules, or impose undue burdens on the Corporation or on FX Index Option Clearing Members in connection therewith, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and the Rules, the Corporation shall be empowered to make such adjustments in premium and exercise settlement procedures for affected option contracts (including, without limitation, the fixing of United States dollar amounts payable (i) in lieu of the trading currency in settlement of matched trades [Exchange transactions] or (ii) in lieu of the trading currency in settlement of exercises) as the Corporation in its sole discretion determines to be fair to the parties to such transactions or exercises.

Payment of Premiums

SECTION 7. (a) The acceptance of every matched trade [Exchange transaction] in FX Index Options and the issuance of every such option (other than an option contract for which the

commencement time is the close of trading on the expiration date) by the Corporation shall be subject to the condition that the Corporation shall have received payment at or before the settlement time of all premiums denominated in the same trading currency due to the Corporation from the Purchasing Clearing Member in the account in which the [Exchange] transaction is effected. In the event the Corporation fails to receive such payment at or before the applicable settlement time, the Corporation may (either by a general rule or resolution adopted by the Board of Directors or by action of the officers of the Corporation with respect to specific transactions) reject any or all unaccepted opening and closing purchase transactions in such account relating to options denominated in the same trading currency. In the event any transaction is rejected as herein provided, the Corporation shall promptly notify, either orally or in writing, the Purchasing Clearing Member and all Writing Clearing Members involved, and such Writing Clearing Members shall have the remedies, (if any), provided in the Exchange Rules of the Exchange on which such transaction was effected.

[Section 7 of this Article supplements Section 8 of Article VI of the By-Laws.]

* * *

ARTICLE XXVI

PACKAGED SPREAD OPTIONS

* * *

Definitions

SECTION 1.

A. – O. [no change]

P.

(1) – (5) [no change]

Premium

(6) The term “premium” in respect of a matched trade [an Exchange transaction] in packaged spread options means the price of each such option (expressed in points), as agreed upon by the purchaser and seller in such transaction, times the index multiplier and the number of options subject to the transaction.

Q. – Z. [no change]

RULES

* * *

CHAPTER I

DEFINITIONS

* * *

Definitions

RULE 101. Unless the context otherwise requires, for all purposes of these rules, the terms herein shall have the meanings given them in Article I of the By-Laws of the Corporation or as set forth below:

A. – B. [no change]

C.

Clearing Bank

(1) The term “Clearing Bank” means a bank or trust company which has entered into an agreement with the Corporation in respect of settlement of matched trades [Exchange transactions] on behalf of Clearing Members.

D. – L. [no change]

M.

[Matched Trade

(1) The term “matched trade” shall mean an Exchange transaction which has been reported to the Corporation as a matched trade in accordance with the Rules.]⁵

N.

Net Daily Premium

(1) The term “net daily premium” when applied to any account of a Clearing Member for any settlement time, means the net amount payable to or by the Corporation at such

⁵ This definition is proposed to be deleted because it is now proposed to be defined in Article I of the By-Laws as set forth above.

settlement time in respect of all matched trades [Exchange transactions] of the Clearing Member in such account as a Purchasing Clearing Member and a Writing Clearing Member.

O. – Z. [no change]

* * *

CHAPTER II

MISCELLANEOUS REQUIREMENTS

* * *

Designation of Clearing Offices

RULE 204. Every Clearing Member shall designate the office of the Corporation through which it shall clear its Exchange transactions and otherwise conduct business with the Corporation, and each Clearing Member shall clear all of its matched trades [Exchange transactions] (no matter on which Exchange such transaction was effected) and otherwise conduct all of its business with the Corporation through the office of the Corporation it so designates. Notwithstanding the foregoing, the Corporation may from time to time permit one or more Clearing Members to utilize services of the Corporation through more than one office of the Corporation and Clearing Members may designate a different office as the one through which they will file exercise notices, receive assignments of exercise notices, deliver or receive certificates for underlying securities, or any one or more of the foregoing.

Records

RULE 207. Every Clearing Member shall keep records showing (a) with respect to each matched trade [Exchange transaction] in option contracts, the names of the Clearing Members who are parties to the transaction, the underlying security or future (or, in the case of index options or packaged spread options, the underlying index), the ticker symbol, the type of option, the premium, the trade date, the exercise price (or, in the case of packaged spread options, the base exercise price and spread interval), the expiration month, the name of the customer, whether the transaction was a purchase or writing transaction and whether it was an opening or closing transaction; (b) with respect to each matched trade [Exchange transaction] in BOUNDS, the series, the trade price, the trade date, the name of the customer, whether the transaction was a purchase or writing transaction and whether it was an opening or closing transaction; (c) with respect to each matched trade [Exchange transaction] in futures, the series, the trade price, the trade date, the name of the customer, whether the transaction was a purchase or sale transaction and whether it was an opening or closing transaction; and (d) with respect to each matched trade [Exchange transaction] in options contracts, futures or BOUNDS, such other information as may from time to time be required by law, regulation, the Exchange on which the transaction was effected or the Corporation. Such records, and all other records required by the By-Laws and

Rules, shall be retained readily accessible for at least five years in such form as the Corporation may authorize and shall be deemed the joint property of the Corporation and the Clearing Member maintaining them. The Corporation shall be entitled to inspect or take temporary possession of any such records at any time upon demand.

* * *

CHAPTER IV

TRADE REPORTING AND MATCHING

* * *

Reporting of Matched Trades Effected on Exchanges

RULE 401. (a) Each business day each Exchange shall report to the Corporation information with respect to each matched trade [Exchange transaction] made on such Exchange during said business day (or on a previous day and reconciled on said business day) and as to which matching trade information has been submitted by or on behalf of the Purchasing Clearing Member and the Writing or Selling Clearing Member. Such matching trade information shall also include a Customer CMTA Indicator, a CMTA Customer Identifier, and an IB Identifier to the extent required under applicable Exchange rules. If a give-up service provider reports to the Corporation the information required under this Rule 401 for matched trades [Exchange transactions] effected on an affiliated futures market, matched trade information from the give-up service provider shall be deemed to have been submitted to the Corporation by such affiliated futures market for all purposes of the By-Laws and Rules.

(1) - (3) [no change]

(b) Subject to Rule 403, each Clearing Member shall be responsible to the Corporation in respect of each matched trade [Exchange transaction] in which such Clearing Member is identified as a Purchasing Clearing Member or Writing or Selling Clearing Member in matching trade information reported to the Corporation by an Exchange, whether or not such matching trade information was correct.

(c) As used in this Rule in respect of a particular Exchange, the term “business day” shall ordinarily mean any day on which such Exchange is open for trading in cleared contracts. Notwithstanding the foregoing, when an international market is open for trading on a day when Exchanges in the United States are closed, the Corporation may agree with such international market that matching trade information regarding matched trades [Exchange transactions] effected on such international market on such day shall be reported to the Corporation on the following business day.

(d) The Corporation shall prescribe the times during which matching trade information is to be reported to the Corporation and the format of such reporting.

...Interpretations and Policies

.01 [no change]

.02 A Clearing Member may, through the systems of the Corporation, update certain non-critical trade information with respect to such transaction, provided that such updates are not in contravention of any rule of the Exchange on which a matched trade [Exchange transaction] was executed.

Supplementary Report of Matched Trades

RULE 402. (a) In extraordinary circumstances, the Corporation may in its discretion accept from an Exchange after the Corporation's cut-off time for receiving matching trade information for a particular business day (the "trade date") in accordance with Rule 401, supplementary matching trade information reflecting the comparison of additional trades executed on or before the trade date that remained unmatched at the Corporation's cut-off time. This Rule 402 shall have no application to reports of matched trades in OTC options submitted through an OTC Trade Source, which are subject to the provisions of Rule 404.

(b) - (f) [no change]

Clearing Member Trade Assignment ("CMTA")

RULE 403. (a) (1) Clearing Members that are parties to a CMTA arrangement shall register their arrangement with the Corporation and provide such information regarding the arrangement as the Corporation shall require. The registration of a CMTA arrangement shall be effective when the Clearing Members have supplied to the Corporation matching information regarding the arrangement. Such registration shall: (i) constitute notice to the Corporation that the Executing Clearing Member has been authorized by the Carrying Clearing Member to direct the transfer of matched trades [Exchange transactions] to a designated account or accounts of the Carrying Clearing Member; (ii) constitute the continuing representation and warranty of each Clearing Member to the Corporation that they have entered into a CMTA Agreement which, if the Corporation has specified an approved form, is in substantially the form approved by the Corporation; and (iii) remain in effect until terminated as specified herein. A Clearing Member that is a party to a CMTA arrangement involving CMTA Customers shall also register with the Corporation each CMTA Customer Identifier and each IB Identifier that has been assigned for purposes of such CMTA arrangement, and shall promptly update such registrations to the extent a CMTA Customer Identifier or an IB Identifier is modified or deleted; provided that the identifiers have been approved by the other Clearing Member to the CMTA arrangement before the identifiers are submitted to the Corporation for registration. Registration of such identifiers, including any modifications or deletions thereto, shall be effective when the Corporation's

systems have accepted such registration or updated identifier information. The Corporation may reject the registration a particular CMTA Customer Identifier or IB Identifier in the event an assigned identifier is already registered with the Corporation.

(2) In addition to the foregoing registrations, Clearing Members that are parties to a CMTA arrangement may elect to authorize the Corporation to settle fees and commissions owed by the Carrying Clearing Member to the Executing Clearing Member in respect of transfers effected pursuant to that arrangement. Clearing Members making such election shall specifically register that aspect of their CMTA arrangement with the Corporation. Such registration shall authorize (i) the Executing Clearing Member to enter into the Corporation's systems fee and commission information with respect to transfers effected pursuant to the CMTA arrangement between the Clearing Members, subject to such system checks as may be established by the Corporation from time to time, and (ii) the Corporation to calculate and settle, in accordance with the applicable provisions of Rule 504, the aggregate of such entered amounts on the next following business day without any further authorization or consent of the Carrying Clearing Member. Registration of this aspect of the Clearing Members' CMTA arrangement shall be effective when the Corporation's systems have accepted such registration. Any entries made pursuant to such registration shall be solely for fees and commissions related to transfers effected pursuant to the Clearing Members' CMTA arrangement and for no other purposes.

(b) Before transferring a matched trade [an Exchange transaction] to a Carrying Clearing Member as specified in the matching trade information reported to the Corporation, the Corporation shall first determine whether a CMTA registration is in effect between the Executing Clearing Member and the Carrying Clearing Member. If such a registration is in effect, the Corporation shall transfer the matched trade [Exchange transaction] to the designated account of the Carrying Clearing Member unless such matching trade information additionally includes a Customer CMTA Indicator. In that event, the Corporation shall further determine whether such matching trade information also includes a CMTA Customer Identifier and IB Identifier. If the matching trade information includes a CMTA Customer Identifier and an IB Identifier and each such identifier matches a CMTA Customer Identifier and an IB Identifier registered for purposes of the CMTA arrangement between the Carrying Clearing Member and the Executing Clearing Member, the Corporation shall transfer the matched trade [Exchange transaction] to the Carrying Clearing Member. If, however, (i) a CMTA registration is not in effect, (ii) the Corporation, in its sole discretion, determines that the information submitted in connection with the CMTA transaction contains an error or omission as provided in paragraph (c) of Interpretation .01 to Article VI, Section 1 of the By-Laws, or (iii) the matching trade information reported in respect of a matched trade [an Exchange transaction] includes a Customer CMTA Indicator, but incorrect, incomplete, or missing information as to either identifier, the transaction shall be deemed to be a failed CMTA transaction and shall not be transferred to an account of the Carrying Clearing Member. A failed CMTA transaction will instead be transferred to a designated account of the Executing Clearing Member, which shall be responsible for the clearance and settlement of such transaction. In the absence of such designation, the Corporation shall transfer the failed CMTA transaction to the customers' or segregated futures account, as applicable, of the Executing Clearing Member.

(c) The Carrying Clearing Member shall be responsible for the clearance and settlement of each matched trade [Exchange transaction] that has been transferred to one of its accounts pursuant to an effective CMTA registration, subject to such Carrying Clearing Member's right to effect a Return as specified herein.

(d) A Carrying Clearing Member may Return to the Executing Clearing Member a position resulting from the transfer of a matched trade [an Exchange transaction], as follows:

(1) – (4) [no change]

(e) The Carrying Clearing Member shall be responsible for the clearance and settlement of any position resulting from a matched trade [an Exchange transaction] transferred to it in accordance herewith that (i) has been exercised or assigned, (ii) has matured or (iii) will expire or mature before the Corporation's next business day, notwithstanding the fact that the Carrying Clearing Member has the right to Return such position. To the extent that a Carrying Clearing Member has the right to Return such position, the Carrying Clearing Member shall not effect a Return pursuant to this Rule. Rather, the respective rights, obligations and claims of the Carrying Clearing Member and the Executing Clearing Member with respect to such position shall be governed by the CMTA Agreement between the Clearing Members. A Carrying Clearing Member shall also be responsible for any position for which it did not effect a Return notwithstanding that it had the right to do so.

(f) – (j) [no change]

(k) The Carrying Clearing Member shall be responsible for the clearance and settlement of all matched trades [Exchange transactions] properly submitted for transfer prior to the effective termination of the CMTA registration, subject to any right that it may have to Return such transaction. After the termination of a CMTA registration, all transactions submitted for transfer pursuant to such registration shall be deemed to be failed CMTA transactions and shall be transferred as specified in paragraph (b) hereof.

(l) Until such time as the Corporation shall provide otherwise, CMTA transactions in OTC options shall not be permitted. Transfers of OTC options between accounts of the same Clearing Member or between accounts of different Clearing Members is a manual process and may be effected only with the consent of the Corporation and for such purposes and subject to such procedures as the Corporation may provide.

...Interpretation and Policies: [no change]

Report of Matched Trades in OTC Options

RULE 404. (a) Reports of matched trades in OTC options shall be submitted to the Corporation for clearance through the applicable OTC Trade Source in accordance with the By-Laws and Rules and the applicable OTC Trade Source Rules. Matched trades reports shall contain matching trade information which shall include: (i) the identities of the Purchasing Clearing

Member and the Selling or Writing Clearing Member and the accounts of each for which the trade is being effected; (ii) the variable terms of the OTC option as provided in Section 6 of Article XVII of the By-Laws; (iii) the number of contracts; (iv) the premium per unit; (v) in the case of transactions in the securities customers' account, a unique customer identifier for the customer for whom the trade was executed and (vi) such other information as the Corporation may require.

(b) Subject to Rule 403, each Clearing Member shall be responsible to the Corporation in respect of each matched trade in which such Clearing Member is identified as a Purchasing Clearing Member or Writing or Selling Clearing Member in matching trade information reported to the Corporation by an OTC Trade Source, whether or not such matching trade information was correct.

(c) The Corporation shall prescribe the times during which matching trade information is to be reported to the Corporation and the format of such reporting.

Allocations of Positions

RULE 405. (a) One or more positions in cleared contracts may be allocated from a designated account of a Giving-Up Clearing Member to a designated account of a Given-Up Clearing Member without the intermediation of a give up service provider through the processes provided for in this Rule; provided, however, that this Rule 405 shall have no application to positions in OTC options.

(b) If (i) the matching trade information submitted to the Corporation in respect of a matched trade [an Exchange transaction] instructs that the position resulting therefrom is to be allocated from a designated account of the Giving-Up Clearing Member to a designated account of the Given-Up Clearing Member, or the Giving-Up Clearing Member has submitted an instruction to the Corporation that one or more positions are to be allocated from a designated account of the Giving-Up Clearing Member to a designated account of the Given-Up Clearing Member, and (ii) the Giving-Up Clearing Member and the Given-Up Clearing Member are parties to an allocation agreement registered with the Corporation at the time the Corporation processes the instruction, then the Corporation shall adjust the positions in the respective designated accounts of the Giving-Up and Given-Up Clearing Member in accordance with the allocation instruction. If the Giving-Up Clearing Member and the Given-Up Clearing Member are not parties to an allocation agreement registered with the Corporation, then the Corporation shall adjust the positions in the respective designated accounts of the Giving-Up and Given-Up Clearing Member in accordance with the allocation instruction only upon receipt of notice from the Given-Up Clearing Member of its affirmative acceptance of the allocation.

(c) – (e) [no change]

(f) If an allocation instruction is submitted after the date the matched trade [Exchange transaction](s) resulting in the position(s) to be allocated is reported to the Corporation, the allocation will not be given effect in any Daily Position Reports and no premium, variation or

margin adjustments will be made in respect of the allocated position(s) until the business day after the date on which the allocation instruction is executed by the Corporation. Notwithstanding the foregoing, the Corporation shall be entitled to require intra-day margin settlements and/or other intra-day settlements in respect of any allocated position as otherwise specified in the By-Laws and Rules.

(g) – (j) [no change]

...*Interpretations and Policies*: [no change]

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CHAPTER V

DAILY CASH SETTLEMENT

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Daily Position Report

RULE 501. Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) of each business day, the Corporation shall make available to each Clearing Member a Daily Position Report for each account maintained by the Clearing Member with the Corporation. The Daily Position Report shall list, among other things, all matched trades [Exchange transactions] of the Clearing Member in such account settling on such business day and shall show the net daily premiums due to or from the Corporation in such account as a result of such [Exchange] transactions. Net daily premiums shall be further combined and netted with net variation payments due to or from the Corporation in respect of positions and transactions in futures in such accounts as calculated by the Corporation in accordance with Chapter XIII of the Rules

...*Interpretations and Policies* [no change]

Daily Premium and Futures Variation Settlement

RULE 502. (a) At or before settlement time on each business day, each Clearing Member shall be obligated to pay the Corporation the amount of any net daily premium and variation payments in an account shown to be due to the Corporation on the Daily Position Report for such account for such day (notwithstanding any credit balance which may be due from the Corporation to the Clearing Member in any other account). Subject to the provisions of Rule 607, 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 amount. Notwithstanding the foregoing, at any settlement time the Corporation may, in its discretion, require any Clearing Member to pay the gross amount of premiums due to the Corporation in respect of all of such Member's matched trades [Exchange transactions] in an account reaching settlement on such business day (i.e.,

without credit for premiums payable to the Member), and the Corporation shall be authorized to withdraw funds from the applicable bank account of such Clearing Member in such amount.

(b) – (c) [no change]

* * *

CHAPTER VI

MARGINS

* * *

Margin Requirements

RULE 601. (a) *Deposit of Margin Assets.* Prior to the time specified by the Corporation on every business day, every Clearing Member shall be obligated to deposit with the Corporation, in accordance with the following provisions of this Rule, margin assets with respect to (1) the positions in cleared contracts maintained in each account with the Corporation at the opening of such business day (including positions resulting from matched trades [Exchange transactions] having a settlement time on such business day); (2) the margin-eligible stock loan positions and stock borrow positions maintained in each account with the Corporation at the opening of such business day (including such positions that were established as a result of Stock Loans initiated on the preceding business day); and (3) any settlement obligations in an account arising from the exercise, assignment, or maturity of any of the foregoing. The minimum amount of margin assets that a Clearing Member is required to deposit with the Corporation shall be such that the aggregate margin assets deposited in respect of the Clearing Member's account, including the margin assets deposited on such business day, is equal to the margin requirement for such account calculated pursuant to the applicable provisions of this Rule 601.

(b) – (e) [no change]

...**Interpretations and Policies** [no change]

Segregation of Long Positions

RULE 611. (a) Subject to the provisions of Article VI, Section 4 of the By-Laws, and except as provided in paragraph (d) hereof in the case of long positions in OTC options, all long positions (other than long positions in futures) in securities customers' accounts and firm non-lien accounts shall be deemed to be segregated long positions unless the Corporation receives contrary instructions from a Clearing Member in accordance with the following provisions of this Rule 611. All segregated long positions shall be held by the Corporation free of any charge, lien or claim of any kind in favor of the Corporation or any person claiming through it, until such positions shall be closed or exercised in accordance with the By-Laws and Rules or until the

Clearing Member shall file with the Corporation written instructions, in such form as the Corporation may from time to time prescribe, directing that such positions be released from segregation. All positions in futures shall be deemed to be unsegregated for purposes of this Rule 611. All positions in cleared securities that are carried in a customers' lien account shall be deemed to be unsegregated for purposes of this Rule 611.

(b) Each business day, during such hours as the Corporation may from time to time establish, a Clearing Member may file with the Corporation written instructions, in such form as the Corporation may from time to time prescribe, designating any segregated long position in such Clearing Member's customers' account or firm non-lien account which the Clearing Member desires the Corporation to release from segregation. The Clearing Member's Daily Position Report and Daily Margin Report for the following business day, and each business day thereafter while such instructions remain in effect, shall reflect such instructions. The Corporation shall have a lien on each unsegregated long option carried in a customers' account (including any exercised option contracts) as provided in the applicable provisions of Article VI, Section 3 of the By-Laws. The Corporation's lien on any long position which the Corporation has been directed to release from segregation as provided herein shall continue until (i) the Corporation receives written instructions, in such form as the Corporation may from time to time prescribe, directing that such long position be segregated and held free of lien, and (ii) the Clearing Member duly pays to the Corporation in accordance with these Rules, all amounts payable by such Clearing Member on the business day following the Corporation's receipt of such instructions. Notwithstanding the foregoing, Clearing Members shall not be permitted to file instructions to release any long position in an OTC options from segregation, and all such long positions shall be segregated except as provided in paragraph (d) of this Rule 611.

(c) [no change]

(d) In the case of a long position in OTC options carried in the securities customers' account of a Clearing Member and for which the Corporation has received a customer ID, to the extent permitted under all applicable laws and regulations (including the rules of the Financial Industry Regulatory Authority, Inc. and any other regulatory or self-regulatory organization to which the Clearing Member is subject), the Corporation shall automatically unsegregate such long position to the extent that the Corporation identifies a qualifying spread position where the short leg of the spread is carried under the same customer ID. The Clearing Member shall not carry a qualifying spread position for a customer unless the customer's margin requirement has been reduced in recognition of the spread, and the carrying of a qualifying spread position for the account of a customer shall constitute a representation to the Corporation that the customer's margin has been so reduced.

...Interpretations & Policies: [no change]

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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) [no change]

(b) Any expiring American option contract may be exercised on its expiration date in accordance with Rule 805. Any capped or European option contract may be exercised (other than automatically exercised in the case of a capped option) only on its expiration date in accordance with Rule 805. Any binary options that meet the exercise parameters set forth in Rule 1501 will be automatically exercised in accordance with that rule. Notwithstanding the foregoing, any expiring flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, [or] short term index option contract or OTC index option contract that meets the exercise parameters set forth in Rule 1804(c) will be automatically exercised on its expiration date in accordance with that rule. No expiring option contract other than an American style flexibly structured option contract, a foreign currency option contract, a short term option contract, a quarterly option contract, a monthly option contract, a weekly option contract, a cross-rate foreign currency option contract, an OTC index option contract or a futures option contract may be exercised on the business day immediately preceding its expiration date.

(c) – (d) [no change]

...Interpretations and Policies [no change]

Assignment of Exercise Notices to Clearing Members

RULE 803. Exercise notices accepted by the Corporation shall be assigned in accordance with the Corporation's procedures to Clearing Members with open short positions in the series of options involved, provided that:

(a) the Corporation may assign an exercise notice to a Clearing Member in respect of an opening writing transaction made by such Clearing Member on the day on which the exercise notice was accepted by the Corporation; and

(b) the Corporation shall not assign an exercise notice to a Clearing Member in respect of any open short position after the Corporation has received matching trade information for a closing purchase transaction which, upon acceptance by the Corporation, will eliminate such short position, unless and until such closing purchase transaction is rejected by the Corporation. Subject to the provisions of the By-Laws, exercise notices accepted by the Corporation shall be assigned at or before 8:00 A.M. Central Time (9:00 A.M. Eastern Time) on the following business day. Assignments shall be dated and effective as of the date the applicable exercise

notices were accepted by the Corporation. A Clearing Member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Corporation, and, if applicable, an [the] Clearing Member submitting an [such] exercise notice shall (subject to the provisions of Rule 901) be notified of the identity of the Assigned Clearing Member [,] through the transmission of Delivery Advices or as soon as practicable after such notice is assigned by the Corporation.

...Interpretations and Policies:

.01 Under the Corporation's assignment procedures the Corporation will assign exercise notices to Clearing Members in respect of positions in a particular account of such Clearing Member or, in the case of an account divided into sub-accounts, a particular sub-account. In the case of short positions in OTC options in a Clearing Member's securities customers' account for which the Corporation has a customer ID, the Corporation will assign exercise notices to specific customer IDs.

Allocation of Exercises

RULE 804. Except as provided in the last sentence of this Rule 804, [E]each Clearing Member shall establish fixed procedures for the allocation of exercises assigned in respect of short positions in the Clearing Member's accounts to specific option contracts included in such short positions. The allocation shall be made in accordance with the requirements set forth in Exchange Rules. During the term of any restriction imposed on a Clearing Member pursuant to Rule 305, the Chairman, the Management Vice Chairman, or the President may require the Clearing Member to report to the Corporation, not later than 8:00 A.M. Central Time (9:00 A.M. Eastern Time) on each business day, the name and address of each writer to whom the Clearing Member allocated an exercise assigned to the Clearing Member on the preceding business day. Such reports shall indicate, for each writer, the series of options for which an exercise was allocated and the number of contracts included in the allocation, and shall state whether any specific deposit or escrow deposit has been made in respect of such writer's short position in such series of options. The foregoing provisions of this Rule 804 shall not apply to the allocation of exercises of OTC options; and in the case of short positions in OTC options in respect of which the Corporation has assigned exercises to a particular customer ID, the Clearing Member shall allocate the exercise only to that customer.

...Interpretations and Policies: [no change]

Expiration Date Exercise Procedure

RULE 805. (a) At or before such time as the Corporation shall from time to time specify on each expiration date, the Corporation shall make available to each Clearing Member an Expiration Exercise Report.

(b) Upon retrieving [receiving] an Expiration Exercise Report, each Clearing Member may submit exercise instructions in response to such report through electronic means prescribed by the Corporation for that purpose. Such instructions shall indicate, with respect each series of options listed for each of the Clearing Member's accounts, the number of option contracts of that series, if any, to be exercised for that account. If no option contracts of a particular series are to be exercised for a particular account, the Clearing Member may so indicate opposite the title of that series. Each Clearing Member desiring to submit instructions in accordance with the preceding provisions of this subparagraph (b) shall submit such instructions to the Corporation before such time as the Corporation shall from time to time specify on the expiration date. Instructions to exercise given pursuant to this subparagraph (b) shall become irrevocable at such time on the expiration date as the Corporation shall from time to time specify.

(c) If, after the deadline prescribed pursuant to subparagraph (b) for the submission of exercise instructions in response to Expiration Exercise Reports, but prior to the expiration time for such option contracts on the expiration date, a Clearing Member desires to exercise option contracts expiring on such expiration date in addition to those which the Clearing Member has previously instructed the Corporation to exercise, the Clearing Member may do so by tendering to the Corporation, prior to such expiration time, a written exercise notice on such form as the Corporation shall prescribe, provided that (i) the Corporation may designate in its procedures classes of futures options with respect to which no late exercise notices will be accepted; and (ii) the Corporation will not accept any late exercise notices with respect to OTC options.

(d) – (m) [no change]

...Interpretations and Policies [no change]

[Acceleration of Expiration Date (Effective Before January 1, 2008)]

RULE 807. When a European-style stock option contract is adjusted pursuant to Section 11 of Article VI of the By-Laws to require the delivery upon exercise of a fixed amount of cash, as would ordinarily occur in the event of a merger whereby the underlying security is converted into a right to receive a fixed amount of cash, the expiration date of the option contract will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive cash occurs.]

Acceleration of Expiration Date (Effective After January 1, 2008)

RULE 807. [no change]

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CHAPTER X

CLEARING FUND CONTRIBUTIONS

* * *

AMOUNT OF CONTRIBUTIONS⁶

RULE 1001.

(a) [no change]

(b) The contribution to the Clearing Fund of each Clearing Member (except recently admitted Clearing Members whose contributions are fixed pursuant to Article VIII of the By-Laws) for each calendar month shall be the greater of (x) the minimum clearing fund contribution specified in paragraph ~~[[b]]~~(c) of this Rule or (y) such Clearing Member's proportionate share of the total amount of the Clearing Fund as determined pursuant to paragraph (a) of this Rule [an amount equal to 5%, or such greater percentage as the Board of Directors shall from time to time prescribe by resolution, of the average aggregate margin requirement in respect of positions outstanding during the preceding calendar month]. A Clearing Member's proportionate share shall be a fraction, the numerator of which shall be the daily average number of options and futures contracts (with the number of OTC option contracts adjusted as needed to ensure that the number of such OTC option contracts, as adjusted, is approximately equal to the number of option contracts other than OTC option contracts that would cover the same notional value or units of the same underlying interest), BOUNDS and shares of Eligible Stock underlying stock loan and borrow positions (adjusted by dividing such number of shares by 100), held by such Clearing Member in open positions with the Corporation during the preceding calendar month and the denominator of which shall be the daily average number of options and futures contracts, BOUNDS[,] and shares of Eligible Stock underlying stock loan and borrow positions[, in each case adjusted in the same manner as the numerator], held by all Clearing Members in open positions with the Corporation during such preceding calendar month. The numerator and denominator shall each include the average daily number of contracts held in paired X-M accounts. Notwithstanding clause (x) of this paragraph ~~[[a]]~~(b), an entity that is an affiliate of a Clearing Member and that also becomes a Clearing Member solely for the purpose of clearing transactions in security futures, commodity futures, futures options, and/or commodity options shall be deemed to be in compliance with the \$150,000 minimum contribution if its contribution is equal to the amount specified in clause (y) of this paragraph and the earlier-admitted Clearing Member is in compliance with the minimum requirement under clause (x).

⁶ The text of Rule 1001 as presented in this rule change reflects amendments that have been approved by the Commission, but not yet implemented by OCC. See SR-OCC-2011-10.

(c) – (e) [no change]

...*Interpretations and Policies*: [no change]

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CHAPTER XI

SUSPENSION OF A CLEARING MEMBER

* * *

Pending Transactions and Variation Payments

RULE 1105. Notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have no obligation to accept any matched trade [Exchange transaction] of a suspended Clearing Member that was effected after the time at which the Clearing Member was suspended. In the event a matched trade [Exchange transaction] of a suspended Clearing Member is rejected by the Corporation, such transaction shall be closed by the other party thereto in accordance with the Exchange Rules of the Exchange on which the transaction was effected, or, in the case of a matched trade in OTC options, as provided in any agreement between the parties. Matched trades [Exchange transactions] of a suspended Clearing Member that are accepted by the Corporation shall be treated in the following manner:

(a) – (h) [no change]

... *Interpretations and Policies*: [no change]

Open Positions

RULE 1106 (a) – (e) [no change]

(e) Exceptions [Exception].

(1) Notwithstanding the preceding provisions of this Rule, if the Chairman, the Management Vice Chairman, or the President shall determine in his discretion, taking into account the size and nature of a suspended Clearing Member's positions, the market conditions prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances as such officer deems relevant, that the closing out of some or all of the suspended Clearing Member's unsegregated long positions or short positions in options or BOUNDS, or long or short positions in futures, would not be in the best interests of the Corporation, other Clearing Members, or the general public, such positions need not be closed out, provided that any determination made pursuant to this paragraph shall be reported to the Board of Directors within 24 hours. This paragraph shall not apply to positions of any

suspended Clearing Member as to which an application for a protective decree may be filed under Section 5(a)(3) of the Securities Investor Protection Act of 1970, as amended, except upon a determination by the Chairman, the Management Vice Chairman, or the President in his discretion, taking into account the circumstances enumerated in the preceding sentence, that the closing out of the suspended Clearing Member's open positions in accordance with the other provisions of this Rule would likely result in a loss to the Corporation (after application of such Clearing Member's margin and Clearing Fund deposits but before any proportionate charge to the Clearing Fund deposits of other Clearing Members).

(2) In respect of open positions in OTC options, if the Corporation determines in its discretion that it is not feasible for the Corporation to close out any such position through any of the other means provided under this Rule, the Corporation may fix a cash settlement value with respect to such position and assign such cash settlement value *pro rata* to one or more Clearing Members with long or short positions in the same series of OTC options.

(f) – (g) [no change]

[...Interpretations and Policies (Effective January 1, 2008)]

.01 When a stock option contract is adjusted to require delivery of a fixed amount of cash and the expiration date is accelerated pursuant to Rule 807, the “exercise by exception” threshold for such contract for purposes of paragraph (a)(iii) shall be \$.01 per share.]⁷

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CHAPTER XIII

FUTURES, FUTURES OPTIONS AND COMMODITY OPTIONS

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Price Differential Spreads

RULE 1301A. (a) A “Price Differential Spread” is a pair of matched trades [Exchange transactions] resulting from a type of order where the party placing the order seeks to simultaneously buy and sell futures contracts on the same underlying interest but with different contract months (each such transaction referred to as a “leg” of the Price Differential Spread), provided that the price at which contracts are bought in one leg less the price at which contracts are sold in the other leg (the “price differential”) is no greater than the limit specified by such party. The party placing the order may choose to (i) record the contract prices of both legs of a Price Differential Spread at the prices at which the contracts are matched on the Exchange

⁷ This interpretation is redundant to the identical provision under Rule 807 and is proposed to be deleted because it was placed here in error.

(“Spread Engine Prices”), or (ii) record the contract price of the contracts with the nearer contract month (the leg in which such contracts are bought or sold referred to as the “front leg”) at the Exchange-reported closing price for such contracts on the trading day immediately preceding the day on which such contracts are executed, and record the contract price of the contracts with the more distant contract month (the leg in which such contracts are bought or sold referred to as the “back leg”) at (A) the contract price of the front leg plus the price differential, if the front leg is the sale of futures contracts, or (B) the contract price of the front leg less the price differential, if the front leg is the purchase of futures contracts (“Spread Settle Prices”).

(b) For purposes of Rule 401.(a)(2), the matched trade report for a matched trade [an Exchange transaction] in futures contracts that is part of a Price Differential Spread shall (i) include both the Spread Engine Price and the Spread Settle Price, identifying which of these two prices is to be initially recorded as the contract price; and (ii) include the Exchange-assigned identification number (the “Price Differential Spread ID”) which links the two legs of a Price Differential Spread to each other. In the case where each counterparty to the trade has entered into the trade as part of its own Price Differential Spread, the matched trade report shall identify separately with respect to each counterparty the price to be initially recorded as the contract price and the Price Differential Spread ID.

(c) – (d) [no change]

... Interpretations and Policies:

.01 [no change]

.02 A Clearing Member may modify contract prices only with respect to matched trades [Exchange transactions] in futures contracts for which a Price Differential Spread ID has been reported by the Exchange.

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CHAPTER XVIII

INDEX OPTIONS AND CERTAIN OTHER CASH-SETTLED OPTIONS

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Introduction

The Rules in this Chapter are applicable only to cash-settled options that are not specifically addressed elsewhere in the By-Laws and Rules, including index options (as defined in the By-Laws and which also include OTC index options) and cash-settled commodity options other than those that are binary options or range options (which are governed by the provisions of Article XIV of the By-Laws and Chapter XV of the Rules). The provisions of Chapter XIII of the Rules,

other than Rule 1303, are not applicable to cash-settled commodity options. The Rules in Chapters I through XII are also applicable to cash-settled options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of such options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

Index Option Escrow Deposits

RULE 1801. (a) Escrow deposits may be made in respect of index option contracts, other than OTC index option contracts, carried by a Clearing Member in a short position in its customers' account with the Corporation in accordance with the provisions of this Rule. Such escrow deposits are referred to herein as "index option escrow deposits."

(b) – (l) [no change]

...Interpretations and Policies [no change]

Assignment and Allocation of Cash-Settled Option Exercises

RULE 1803. (a) Exercises accepted by the Corporation in respect of cash-settled option contracts shall be assigned and allocated in accordance with Rules 803 and 804 except as provided in paragraph (b) of this Rule and except that Delivery Advices shall not be made available by the Corporation for exercises of such option contracts. In lieu thereof, the Corporation shall make available to each Index Clearing Member information with respect to exercises and assignments of cash-settled option contracts [Exercise and Assignment Activity Reports] as provided in paragraph (c) of this Rule.

(b) Following the automatic exercise of the capped cash-settled option contracts in any series of capped cash-settled options, the exercises shall be assigned and allocated to all open short positions (including all short positions established in an opening writing transaction on the trading day preceding the day of the automatic exercise, but excluding short positions that were subject to closing purchase transactions on such day) in such series of options. Subject to the provisions of the By-Laws, the Corporation shall assign such obligations at or before 7:00 A.M. Chicago Time (8:00 A.M. Eastern Time) on the business day following the date of the automatic exercise. Rule 804 shall apply to allocations of automatic exercises of capped options.

(c) On each business day, the Corporation shall make available to each Index Clearing Member information [an Exercise and Assignment Activity report] reflecting:

(1) all exercises effected by such Clearing Member with respect to cash-settled option contracts and accepted by the Corporation on the preceding business day (or, in the case of the business day following an expiration date, on such expiration date), and all exercises effected by other

Index Clearing Members and accepted by the Corporation on such day with respect to cash-settled option contracts that were assigned by the Corporation to an account of such Clearing Member;

(2) all automatic exercises of capped options in the accounts of such Clearing Member effected on the preceding business day, and all assignments of obligations relating to exercises on such day of capped options in the accounts of other Index Clearing Members to short positions in the accounts of such Clearing Member.

[Rule 1803 supplements Rules 803 and 804.]

Expiration Date Exercise Procedure for Cash-Settled [Index] Options

RULE 1804. (a) [no change]

(b) A Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring cash-settled option contract identified [listed] in the Clearing Member's Expiration Exercise Report, other than a flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, short term index option contract and OTC index option contract, that has an exercise settlement value of \$1.00 or more per contract, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

(c) A Clearing Member shall be automatically deemed to have exercised, immediately prior to the Expiration Time on each expiration date, every expiring OTC index option contract, flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, and short term index option contract identified [listed] in the Clearing Member's Expiration Exercise Report that has an exercise settlement amount of \$0.01 or more per contract in the case of OTC index option contracts and \$1.00 or more per contract in the case of all other types of index option contracts, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members.

(d) [no change]

[Rule 1804 supplements Rules 805 and, together with Rule 1802, replaces Rule 802.]

...Interpretations and Policies

.01 – .02 [no change]

.03 The Corporation has determined that, for purposes of paragraph (c) of this Rule 1804, an OTC index option will be automatically exercised at expiration if the exercise settlement amount is any positive amount.

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CHAPTER XXI

CROSS-RATE FOREIGN CURRENCY OPTIONS

* * *

Daily Cash Settlements

RULE 2112. (a) On each business day, the Corporation shall make available to each Cross-Rate Clearing Member a report listing, among other things, all matched trades [Exchange transactions] of the Clearing Member in cross-rate foreign currency options in each account of the Clearing Member as to which the Corporation received matching trade information on such business day and shall show the amount of the net daily premium payable to or by the Clearing Member in each trading currency with respect to each such account.

(b) In the event that the net daily premium listed in the report delivered to a Clearing Member pursuant to paragraph (a) of this Rule is payable by such Clearing Member to the Corporation, the Corporation shall be authorized to withdraw such amount from the bank account designated by the Clearing Member in respect of the applicable trading currency at or prior to the settlement time for matched trades [Exchange transactions] settled in such trading currency.

(c) The Corporation shall be obligated to credit to each Clearing Member any net daily premium amount due from the Corporation to such Clearing Member in such trading currency in each account as shown in the report referred to in paragraph (a) of this Rule only to the extent that such amount exceeds the net amount of premiums payable to the Corporation at a later settlement time (or at an earlier settlement time, but not yet paid) in respect of matched trades [Exchange transactions] in cross-rate foreign currency options in the same account as to which the Corporation received matching trade information on the preceding day. Any net daily premiums so credited shall be retained by the Corporation and shall be treated as cash margin deposits [and shall be applied to reduce the provisional margin deficit or increase the provisional margin excess for purposes of settlements in trading currencies having a later settlement time. The Clearing Member may obtain the release of premium amounts held as margin to the extent that the Clearing Member makes a timely deposit of additional margin assets to reduce or eliminate the margin deficit plus any net daily premiums payable by the Clearing Member that have not yet been paid]. Premiums held as margin shall be released by the Corporation in accordance with such procedures as the Corporation shall specify.

(d) [no change]

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CHAPTER XXIV

FLEXIBLY STRUCTURED INDEX OPTIONS DENOMINATED IN A FOREIGN CURRENCY

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Daily Cash Settlements

RULE 2410. (a) At or before such time as the Corporation shall prescribe on each business day, the Corporation shall make available to each FX Index Option Clearing Member a report listing, among other things, all matched trades [Exchange transactions] of the Clearing Member in FX Index Options in each account of the Clearing Member as to which the Corporation received matching trade information on such business day and shall show the amount of the net daily premium payable to or by the Clearing Member in each trading currency with respect to each such account.

(b) In the event that the net daily premium listed in the report delivered to a Clearing Member pursuant to paragraph (a) of this Rule is payable by such Clearing Member to the Corporation, the Corporation shall be authorized to withdraw such amount from the bank account designated by the Clearing Member in respect of the applicable trading currency at or prior to the settlement time for matched trades [Exchange transactions] settled in such trading currency.

(c) The Corporation shall be obligated to credit to each Clearing Member any net daily premium amount due from the Corporation to such Clearing Member in such trading currency in each account as shown in the report referred to in paragraph (a) of this Rule only to the extent that such amount exceeds the net amount of premiums payable to the Corporation at a later settlement time (or at an earlier settlement time, but not yet paid) in respect of matched trades [Exchange transactions] in FX Index Options in the same account as to which the Corporation received matching trade information on the preceding day. Any net daily premiums so credited shall be retained by the Corporation and shall be treated as cash margin deposits. Premiums held as margin shall be released by the Corporation in accordance with such procedures as the Corporation shall specify.

(d) [no change]

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by OCC's Board of Directors at a meeting held on August 23, 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 proposed rule change is to allow OCC to provide central clearing of OTC options beginning in the first quarter of 2012. OCC will clear the proposed OTC options in a manner that is highly similar to the manner in which it clears listed options, with only such modifications as are appropriate to reflect the unique characteristics of OTC options.

OTC Options

The initial OTC options to be cleared by OCC will consist of options on equity indices published by Standard & Poor's Financial Services LLC ("S&P"). OCC has entered into a license agreement with S&P that allows OCC to clear OTC options on the S&P 500 Index, the S&P MidCap 400 Index and the S&P Small Cap 600 Index. OCC may clear OTC options on other indices and on individual equity securities in the future. OTC options will have predominantly common terms and characteristics, but also include unique terms negotiated by the parties. Transactions in OTC options will not be executed through the facilities of any

exchange, but will instead be entered into bilaterally and submitted to OCC for clearance through one or more providers of trade affirmation services.⁸

OTC options will be similar to exchange-traded standardized equity index options called “FLEX Options” that are currently traded on certain options exchanges.⁹ FLEX Options are exchange-traded put and call options that allow for customization of certain terms. For example, FLEX index Options traded on the Chicago Board Options Exchange have six customizable terms: (1) underlying index, (2) put or call, (3) expiration date, (4) exercise price, (5) American or European exercise style, and (6) method of calculating settlement value. OCC is the issuer and guarantor of FLEX Options and clears FLEX Options traded on multiple exchanges.

Similar to FLEX Options, a limited number of variable terms of OTC options will be allowed for customization, with a specified range of values that may be assigned to each, as agreed between the buyer and seller. Parties submitting transactions in OTC options for clearing by OCC will be able to customize six discrete terms: (1) underlying index¹⁰ (2) put or call; (3) exercise price; (4) expiration date; (5) American or European exercise style; and (6) method of calculating exercise settlement value on the expiration date.¹¹ The variable terms and permitted

⁸ The initial provider of the trade affirmation services in connection with the OTC options will be MarkitServ.

⁹ Note that FINRA Rule 2360(a)(16) refers to FLEX Options as “FLEX Equity Options”, which it defines as “any options contract issued, or subject to issuance by, The Options Clearing Corporation whereby the parties to the transaction have the ability to negotiate the terms of the contract consistent with the rules of the exchange on which the options contract is traded.” OCC does not believe this definition would capture OTC options as they are not traded on any exchange. Nevertheless, as discussed below, OCC is working with FINRA to amend certain of FINRA’s rules to clarify the proper application of such rules to OTC options.

¹⁰ Initially, however, the S&P 500 Index will be the only permitted underlying index.

¹¹ The expiration date of an OTC option must fall on a business day. The method of determining the exercise settlement value of an OTC option on its expiration date may be either the opening settlement value or the closing settlement value of the underlying index (calculated by S&P using the opening or closing price, as applicable, in the primary market of each component security of the underlying index on the specified expiration date), in each case as reported to OCC by CBOE.

values will be specified in the proposed Section 6 of Article XVII of the By-Laws. With respect to future OTC options accepted for clearing, OCC intends that such future OTC options will conform to the general variable terms and limits on the variable terms set forth in proposed Section 6 of the By-Laws, and will either amend the Interpretations and Policies thereunder to specify additional requirements for specific OTC options or publish such requirements on OCC's website.

Clearing of OTC Options

OCC proposes to clear OTC options subject to the same basic rules and procedures used for the clearance of listed index options. The proposed rules require that the counterparties to the OTC options must be eligible contract participants ("ECPs"), as defined in Section 3a(65) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1a(18) of the Commodity Exchange Act, as amended (the "CEA").¹² Because an OTC option will be a "security" as defined in the Exchange Act of 1934, the proposed rules also require that the transactions be cleared through a clearing member of OCC that is registered with the Commission as a broker-dealer or one of the small number of clearing members that are "non-U.S. securities firms" as defined in OCC's By-Laws.¹³ OCC is not proposing to require clearing members to meet any different financial standards for clearing OTC options. However, clearing members must be specifically approved by OCC to clear OTC options in order to assure operational readiness.

Exercise of an OTC option will be settled by payment of cash by the assigned writer and to the exercising holder through OCC's cash settlement system on the business day

¹² See proposed Section 6(f), Article XVII of the By-Laws.

¹³ See proposed Interpretation and Policy .10 of Section 1, Article V of the By-Laws.

following exercise in exactly the same manner as is the case with exercise settlement of listed index options. As in the case of listed index options, the exercise-settlement amount will be equal to the difference between the current value of the underlying interest and the exercise price of the OTC option, times the multiplier that determines the size of the OTC option. In the case of OTC index options on the S&P 500, the multiplier will be fixed at 1. The multipliers for additional OTC index options that OCC may in the future clear may be fixed at such value as OCC determines and provides for in its By-Laws and Rules.

OCC will calculate clearing margin for the OTC options using its STANS margin system on the same basis as for listed index options. Because OCC currently clears listed options on all three of the underlying indexes on which OCC is currently licensed to clear OTC options, and because the customizable terms of these OTC options are relatively limited and the range of values that customizable terms may be given is limited, OCC does not believe that valuation and risk management for these OTC options present any difficult challenges. Nevertheless, as discussed further below, OCC is proposing a special close-out rule to be used in the unlikely event that OCC would be unable to close out positions in OTC options of a failed clearing member through existing procedures.

OTC options may be carried in a clearing member's firm account, in market-maker accounts or in its securities customers' account, as applicable. Although customer positions in OTC options will be carried in the securities customers' account (an omnibus account), OCC will use a "customer ID" to identify positions of individual customers based on information provided by clearing members.¹⁴ However, positions are not presently intended to

¹⁴ Such customer IDs are necessary in order to allow OCC to comply with certain terms of OCC's license agreement with S&P. As described further below, customer IDs will be used for other purposes as well.

be carried in individual customer sub-accounts, and positions in OTC options will be margined at OCC in the omnibus customers' account on the same basis as listed options. If a clearing member takes the other side of a transaction with its customer in an OTC option, the transaction will result in the creation of a long or short position (as applicable) in the clearing member's customers' account and the opposite short or long position in the clearing member's firm account. The positions could also be includable in the internal cross-margining account, subject to any necessary regulatory approvals.

The trade data of an OTC option trade will be entered into the system of MarkitSERV or another trade affirmation vendor approved by OCC for this purpose (the "OTC Trade Source"). OCC will permit additional OTC Trade Sources in the future in response to sufficient market demand from OCC's clearing members and subject to the ability of any such OTC Trade Source to meet OCC's requirements for operational readiness and interoperability with OCC's systems, as well as requirements with respect to relevant business experience and reputation, adequate personnel and expertise, financial qualification and such other factors as OCC deems relevant. The trade may be affirmed through one of two methods: (i) both sides of the trade enter the trade details into the system of the OTC Trade Source and the trade details are compared and matched by the OTC Trade Source; or (ii) one party to the trade enters the trade details into the system of the OTC Trade Source and the other party to the trade then views the information and affirms it if it is correct. Whichever method is used, OCC will receive a matched trade from the OTC Trade Source. Note that, in either case, the OTC Trade Source merely acts as a messaging system among the parties and OCC to affirm the terms that are agreed to by the parties bilaterally and to transmit that information to OCC. It will be permissible for parties to submit trades for clearance that were entered into bilaterally at any time

in the past, provided that the eligibility for clearance will be determined as of the date the trade is submitted to OCC for clearance.¹⁵ The OTC Trade Source will process the trade and submit it as a matched trade to OCC for clearing. If OCC accepts the trade, OCC will so notify the OTC Trade Source, which will notify the submitting parties. Customers of clearing members may have direct access to the OTC Trade Source for purposes of entering or affirming trade data and receiving communications regarding the status of transactions, in which case mechanisms will be put in place for a clearing member to authorize a customer to enter a trade for the clearing member's customers' account or for the clearing member to affirm a trade once entered.

In order for a clearing member to be approved for clearing OTC options, the clearing member must enter into a standard agreement with MarkitServ (or another OTC Trade Source, if and when OCC enters into arrangements with other OTC Trade Sources). At launch, OTC options will not be subject to the same clearing member trade assignment rules and procedures through which exchange-traded options can be cleared by a clearing member other than the executing clearing member. This functionality may be added at a later date. OCC and MarkitSERV will adopt procedures to permit a customer that has an account with Clearing Member A ("CM A") to enter into an OTC option transaction with Clearing Member B ("CM B") and have the position included in its account at CM A and cleared in CM A's customers' account at OCC.

OTC options will be fungible with each other to the extent that there are OTC options in the system with identical terms. However, OCC will not treat OTC options as

¹⁵ OCC's license agreement with S&P imposes certain minimum requirements relating to time remaining to expiration of the OTC option, as detailed in proposed Interpretation and Policy .01 of Section 6, Article XVII of the By-Laws.

fungible with index options listed on any exchange, even if an OTC option has terms identical to the terms of the exchange-listed option.

Clearing members that carry customer positions in cleared OTC options will be subject to all OCC rules governing OCC-cleared options generally, as well as all applicable rules of the SEC and of any self-regulatory organization, including the Financial Industry Regulatory Authority (“FINRA”), of which they are a member.

Regulatory Status of the OTC Options

An OTC option will be a “security” as defined in both the Securities Act of 1933, as amended (the “Securities Act”) and, as noted above, the Exchange Act. OCC will be the “issuer” of the OTC options. The OTC options will be neither “swaps” nor “security-based swaps” for purposes of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”).¹⁶

Most of OCC’s clearing members are members of FINRA and subject to FINRA’s rules, which have different provisions for “listed” and “OTC options” and contain various definitions distinguishing between the two. In some cases, OTC options would fall into neither category under FINRA’s definitions and in other cases, they would fall within what OCC perceives to be the wrong category. OCC has suggested to FINRA that it amend certain of its rules to clarify the proper application of such rules to cleared OTC options.

In the event of the insolvency of a broker-dealer that clears customer transactions in OTC options, the Securities Investor Protection Act of 1970, as amended (“SIPA”) would

¹⁶ Section 1a(47)(A)(i) of CEA, as added by Section 721(a)(21) of Dodd-Frank, defines “swaps” broadly to include options on indices. However, Section 1a(47)(B)(iii) of the CEA excludes from the “swap” definition any option on any index of securities that is subject to the Securities Act and the Exchange Act.

apply. A cleared OTC option is a “security” as defined in SIPA, and in the event of the insolvency of a broker-dealer that carries positions in OTC options for the securities accounts of customers, claims of customers arising from such options would be included in the customer’s “net equity” claim under SIPA. The proceeds of such OTC option positions and margin collateral supporting such positions at OCC that are returned to the trustee for the insolvent clearing member would be treated as “customer property.” The result is that customers’ claims with respect to their OTC options would be entitled to the same priority over the claims of general unsecured creditors of the insolvent clearing member and be entitled to the same protection from the SIPC fund as are other customer claims. As discussed in a meeting among representatives of OCC, SIPC and the Commission staff,¹⁷ SIPC intends to submit, or has submitted, to the Commission for approval an amendment to SIPC Rule 400 to include cleared OTC options within the coverage of the Rule, thereby also confirming the status of OTC options under the statute itself. Rule 400 provides an exception to the general policy that customer net equity claims based on securities will be satisfied, to the extent practicable, by delivery of securities. Under SIPC Rule 400, positions in standardized options are generally required to be liquidated as promptly as practicable and customer claims are to be satisfied through delivery of cash. SIPC’s proposed amendment would: (i) include the proposed OTC options as standardized options within the coverage of Rule 400, and (ii) eliminate the requirement of the present Rule that customer positions in standardized options (including cleared OTC options) be liquidated as promptly as practicable and to provide express authority for a trustee or SIPC to transfer

¹⁷ A contract that is excluded from the definition of a “swap” under Section 1a(47)(B) (other than Section 1a(47)(B)(x)) is not a “security-based swap” for purposes of Section 3a(68) of the Exchange Act. Meeting in the Commission’s offices, October 20, 2011, among representatives of OCC and Michael Macchiaroli, Thomas McGowan and other Commission staff and Kenneth Caputo of SIPC.

customer positions to another SIPC member as is permitted under SIPA with respect to customer securities positions generally.

Proposed By-Law and Rule Changes

The specific proposed changes to OCC's By-Laws and Rules to provide for the clearing of OTC options relate primarily to: (i) specification of customizable terms; (ii) procedures for submission and acceptance of trades for clearance; and (iii) specification of criteria for eligibility of clearing members to clear transactions in OTC options and limitation of the types of customers for whom clearing members may effect transactions in OTC options. Otherwise, the currently proposed OTC options will be cleared and settled under the same provisions applicable to clearance of listed index options. Many of the proposed amendments are self-explanatory, and we have therefore attempted to confine the following discussion to a broad overview with specific explanation only where the reasons for the change may be less obvious.

Article I of the By-Laws contains defined terms used throughout the By-Laws and Rules. OCC proposes to modify certain existing definitions and include certain new definitions in order to incorporate OTC options into existing rules and facilitate the creation of new provisions unique to OTC options. Throughout the By-Laws and Rules, OCC proposes to replace the term "Exchange transaction," which is currently defined in Article I, in relevant part, as "a transaction on or through the facilities of an exchange for the purchase, writing or sale of a cleared contract" with the term "matched trade" so as to make the relevant portions of the By-Laws and Rules applicable to transactions in OTC options as well as listed options. "Matched trade" is proposed to be defined in Article I to include transactions "effected on or through the facilities of an exchange" or "affirmed through the facilities of an OTC Trade Source" in order to

include transactions in both listed options and OTC options. The current definition of “matched trade” in Rule 101 is proposed to be deleted as unnecessary given the new definition. Much of the length of this rule filing is attributable to the fact that the term “Exchange transaction” is used so many places in the rules. OCC has entered into agreements in the past which reference the term “Exchange transaction” or “exchange transaction.” OCC is also proposing to add an Interpretation and Policy to the new definition of “matched trade” in order to avoid any ambiguity concerning how such terms should be interpreted in any such agreement.

OCC proposes to add a new Interpretation and Policy .10 to Section 1 of Article V of the By-Laws, providing the additional criteria that must be met by a Clearing Member in order to clear OTC index options. Among these new criteria are that Clearing Member seeking to clear OTC index options on underlying indices published by Standard & Poor’s Financial Services LLC (“S&P”) must execute and maintain in effect a short-form license agreement in such form as specified from time to time by S&P. The current form of S&P short-form index license agreement is attached hereto as Exhibit A.

The Interpretations and Policies under Section 1, Article VI allow clearing members to adjust their positions with OCC for certain enumerated reasons. OCC proposes to amend the Interpretations and Policies to clarify that, consistent with industry conventions in the OTC markets, adjustment of positions in OTC options will be effected through a manual process (as opposed to the electronic process available to post-trade adjustments in listed options), to the extent permitted by OCC. For the same reason, OCC is proposing to amend Rule 403 to prohibit clearing member trade assignment (“CMTA”) transactions in OTC options. Trade “give-ups” that are effected through the CMTA process in the case of listed options will, in the case of OTC options, be effected through MarkitSERV before the trades are submitted to OCC for clearing.

Article XVII of the By-Laws governs index options in general and OCC is proposing amendments to Article XVII in order to set forth the terms applicable to the initial OTC options proposed to be cleared by OCC — options on equity indices published by S&P — and to differentiate OTC index options from other index options cleared by OCC. For example, certain amendments to the definitions are necessary because OTC options will be permitted to have a much wider range of expiration dates and expiration times than exchange-traded options. Additional definitional amendments ensure that OTC index options will constitute a separate class of options from other cash-settled index options even if both index options have the same terms and cover the same underlying interest.

Section 3 of Article XVII provides for adjustment of the terms of outstanding index options as necessary to reflect possible changes in the underlying index — such as those creating a discontinuity in the level of the index — that could theoretically make an adjustment necessary to protect the legitimate expectations of holders and writers of options on the index. Pursuant to paragraph (g) of Section 3, most but not all such adjustments would be made, in the case of listed index options, by an adjustment panel consisting of representatives of the exchanges on which the options are traded. In the case of OTC options, any such adjustments will be made by OCC in its sole discretion. However, in exercising that discretion, OCC may take into consideration adjustment made by the adjustment panel with respect to exchange-traded options covering the same underlying index.¹⁸

OCC proposes to add a new Section 6 to Article XVII to set forth certain provisions unique to OTC index options, including the variable terms allowed for OTC index

¹⁸ Because index options, unlike options on individual stocks, rarely, if ever, require adjustments, allocation of the adjustment authority may have little practical significance.

options and the general limitations on such variable terms. In general, all OTC index options must conform to the terms and limitations set forth in Section 6, and additional specific requirements applicable to specific OTC index options will either be set forth in the Interpretations and Policies under Section 6 or published separately on OCC's website. Section 6 also makes clear that although OTC index options are not fungible with exchange-traded index options, OTC index options of the same series (*i.e.*, options having identical terms) will be fungible with each other. In addition to the terms and limitations applicable to OTC index options, Section 6 will establish that clearing members will be deemed to have made a number of representations and warranties in connection with their activities in OTC options each time they affirm a matched trade entered into an OTC Trade Source.

Chapter IV of the Rules sets forth the requirements for reporting of matched trades to OCC, and Rule 401 thereunder governs reporting of transactions in listed options by participant Exchanges. OCC is proposing to add new Rule 404 to govern the details of reporting of matched trades in OTC options by an OTC Trade Source.

As discussed above, positions in OTC options will generally be margined in the same manner as positions in listed options using STANS and pursuant to Chapter VI of the Rules. However, OCC proposes to amend Rule 611 to establish different procedures for the segregation of long positions in OTC options for margining purposes. Long positions in listed options are held in a clearing member's customers' account or firm non-lien account and by default are deemed to be "segregated," meaning that they are not subject to OCC's lien and are given no collateral value when determining the margin requirement in the account. Such positions may be unsegregated only when a clearing member instructs OCC to unsegregate a long position and represents to OCC that the long position is part of a spread transaction carried

for a single customer whose margin requirement on the corresponding short position has been reduced in recognition of the spread. OCC will then unsegregate the long position and so reduce OCC's margin requirement. However, in case of long positions in OTC options that are carried in a clearing member's customers' account and for which OCC has received a customer ID, OCC proposes that it will automatically unsegregate such long positions if OCC identifies a qualifying short position in OTC options carried under the same customer ID. Clearing members will not be required to give an affirmative instruction to OCC to unsegregate a long position in OTC options or make a separate representation regarding the spread transaction. Instead, by carrying a qualifying spread position in a customer account, clearing members are deemed to have represented to OCC that the customer's margin has been reduced in recognition of the spread. Based on discussion with the clearing members, it is OCC's understanding that, in practice, broker-dealers reduce customers' margin requirements to reflect spread positions. Therefore, OCC believes that automatic recognition of such spreads by OCC together with the deemed representation will greatly increase operational efficiency while providing equal assurance that long positions in OTC options will be unsegregated only if an identified customer will receive the benefit of the reduced margin required for spread transactions.

Rule 1001 sets forth the amount of the contribution that each clearing member is required to make to the clearing fund. OCC proposes to amend Rule 1001(c) so that, for purposes of calculating the daily average number of cleared contracts held by a clearing member in open positions with OCC during a calendar month (which number is used in turn to determine the clearing member's contribution to the clearing fund), open positions in OTC options will be adjusted as needed to account for any differences between the multiplier or unit of trading with respect to OTC options relative to non-OTC options covering the same underlying index or

interest so that OTC options and non-OTC options are given comparable weight in the computation.¹⁹

In general, the rules in Chapter XI governing the suspension of a clearing member will apply equally to clearing members that transact in OTC options. Rule 1106 provides broad authority for OCC to close out open positions in options carried by a suspended clearing member “in the most orderly manner practicable.” OCC is proposing to amend Rule 1106 to add an additional provision with respect to positions in OTC options. The Commission has recently approved an OCC rule change providing OCC the authority to use an auction process as one of the means by which OCC may close out open positions in listed options carried by a suspended clearing member.²⁰ OCC anticipates it will use this auction process for OTC options as well. As an additional protection, however, OCC is proposing to amend Rule 1106 to give OCC the authority, in extraordinary circumstances, to fix a liquidation value for open OTC options positions of a suspended clearing member if OCC determines that fixing a close-out value is the most orderly manner of closing out such positions. This procedure would mean that one or more clearing members having the opposite side of options of the same series as those held by the defaulting clearing member could have their positions involuntarily closed out and would be required to accept or pay the close-out value of the positions as determined by OCC. OCC anticipates that the likelihood of having to exercise this authority is small, and that the authority would only be exercised in the event that OCC is unable to find a counterparty willing to purchase, or assume the obligations of, open long and short positions of the suspended clearing member at an appropriate value either through the regular OTC market or through the auction

¹⁹ For example, the index multiplier applicable to OTC index options on the S&P 500 Index will be fixed at 1. See proposed Interpretation and Policy .01 of Section 6, Article XVII of the By-Laws. In comparison, the index multiplier applicable to listed index options is 100.

process. Nevertheless, in view of the fact that positions in OTC index options are expected to be large and that there may be no active trading market in options with terms precisely identical to the terms of the OTC index options in question, OCC believes that this is an appropriate failsafe provision.

* * *

The proposed changes to OCC's By-Laws are consistent with the purposes and requirements of Section 17A of the Exchange Act because they are designed to permit OCC to perform clearing services for products that are subject to the jurisdiction of the CFTC without adversely affecting OCC's obligations with respect to the prompt and accurate clearance and settlement of securities transactions or the protection of securities investors and the public interest. The proposed rule change is not inconsistent with any rules of OCC.

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

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

²⁰ See Securities Exchange Act Release 65654 (October 28, 2011), 76 FR 68238 (November 3, 2011).

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.

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

Neither summary effectiveness nor accelerated effectiveness is sought.

Item 8. Proposed Rule Change Based on Rules of Another 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 the proposed rule change for publication in the Federal Register.

Exhibit 5. S&P Short-Form Index License Agreement

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 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2011-19

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to OTC Options Rules

Comments requested within ____ days
after the date of this publication.

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 allow OCC to provide central clearing of OTC options beginning in the first quarter of 2012.

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 proposed rule change is to allow OCC to provide central clearing of OTC options beginning in the first quarter of 2012. OCC will clear the proposed OTC options in a manner that is highly similar to the manner in which it clears listed options, with only such modifications as are appropriate to reflect the unique characteristics of OTC options.

OTC Options

The initial OTC options to be cleared by OCC will consist of options on equity indices published by Standard & Poor's Financial Services LLC ("S&P"). OCC has entered into a license agreement with S&P that allows OCC to clear OTC options on the S&P 500 Index, the S&P MidCap 400 Index and the S&P Small Cap 600 Index. OCC may clear OTC options on other indices and on individual equity securities in the future. OTC options will have predominantly common terms and characteristics, but also include unique terms negotiated by the parties. Transactions in OTC options will not be executed through the facilities of any

exchange, but will instead be entered into bilaterally and submitted to OCC for clearance through one or more providers of trade affirmation services.¹

OTC options will be similar to exchange-traded standardized equity index options called “FLEX Options” that are currently traded on certain options exchanges.² FLEX Options are exchange-traded put and call options that allow for customization of certain terms. For example, FLEX index Options traded on the Chicago Board Options Exchange have six customizable terms: (1) underlying index, (2) put or call, (3) expiration date, (4) exercise price, (5) American or European exercise style, and (6) method of calculating settlement value. OCC is the issuer and guarantor of FLEX Options and clears FLEX Options traded on multiple exchanges.

Similar to FLEX Options, a limited number of variable terms of OTC options will be allowed for customization, with a specified range of values that may be assigned to each, as agreed between the buyer and seller. Parties submitting transactions in OTC options for clearing by OCC will be able to customize six discrete terms: (1) underlying index³ (2) put or call; (3) exercise price; (4) expiration date; (5) American or European exercise style; and (6) method of

¹ The initial provider of the trade affirmation services in connection with the OTC options will be MarkitServ.

² Note that FINRA Rule 2360(a)(16) refers to FLEX Options as “FLEX Equity Options”, which it defines as “any options contract issued, or subject to issuance by, The Options Clearing Corporation whereby the parties to the transaction have the ability to negotiate the terms of the contract consistent with the rules of the exchange on which the options contract is traded.” OCC does not believe this definition would capture OTC options as they are not traded on any exchange. Nevertheless, as discussed below, OCC is working with FINRA to amend certain of FINRA’s rules to clarify the proper application of such rules to OTC options.

³ Initially, however, the S&P 500 Index will be the only permitted underlying index.

calculating exercise settlement value on the expiration date.⁴ The variable terms and permitted values will be specified in the proposed Section 6 of Article XVII of the By-Laws. With respect to future OTC options accepted for clearing, OCC intends that such future OTC options will conform to the general variable terms and limits on the variable terms set forth in proposed Section 6 of the By-Laws, and will either amend the Interpretations and Policies thereunder to specify additional requirements for specific OTC options or publish such requirements on OCC's website.

Clearing of OTC Options

OCC proposes to clear OTC options subject to the same basic rules and procedures used for the clearance of listed index options. The proposed rules require that the counterparties to the OTC options must be eligible contract participants ("ECPs"), as defined in Section 3a(65) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1a(18) of the Commodity Exchange Act, as amended (the "CEA").⁵ Because an OTC option will be a "security" as defined in the Exchange Act of 1934, the proposed rules also require that the transactions be cleared through a clearing member of OCC that is registered with the Commission as a broker-dealer or one of the small number of clearing members that are "non-U.S. securities firms" as defined in OCC's By-Laws.⁶ OCC is not proposing to require clearing members to meet any different financial standards for clearing OTC options. However,

⁴ The expiration date of an OTC option must fall on a business day. The method of determining the exercise settlement value of an OTC option on its expiration date may be either the opening settlement value or the closing settlement value of the underlying index (calculated by S&P using the opening or closing price, as applicable, in the primary market of each component security of the underlying index on the specified expiration date), in each case as reported to OCC by CBOE.

⁵ See proposed Section 6(f), Article XVII of the By-Laws.

⁶ See proposed Interpretation and Policy .10 of Section 1, Article V of the By-Laws.

clearing members must be specifically approved by OCC to clear OTC options in order to assure operational readiness.

Exercise of an OTC option will be settled by payment of cash by the assigned writer and to the exercising holder through OCC's cash settlement system on the business day following exercise in exactly the same manner as is the case with exercise settlement of listed index options. As in the case of listed index options, the exercise-settlement amount will be equal to the difference between the current value of the underlying interest and the exercise price of the OTC option, times the multiplier that determines the size of the OTC option. In the case of OTC index options on the S&P 500, the multiplier will be fixed at 1. The multipliers for additional OTC index options that OCC may in the future clear may be fixed at such value as OCC determines and provides for in its By-Laws and Rules.

OCC will calculate clearing margin for the OTC options using its STANS margin system on the same basis as for listed index options. Because OCC currently clears listed options on all three of the underlying indexes on which OCC is currently licensed to clear OTC options, and because the customizable terms of these OTC options are relatively limited and the range of values that customizable terms may be given is limited, OCC does not believe that valuation and risk management for these OTC options present any difficult challenges. Nevertheless, as discussed further below, OCC is proposing a special close-out rule to be used in the unlikely event that OCC would be unable to close out positions in OTC options of a failed clearing member through existing procedures.

OTC options may be carried in a clearing member's firm account, in market-maker accounts or in its securities customers' account, as applicable. Although customer positions in OTC options will be carried in the securities customers' account (an omnibus account), OCC will use a "customer ID" to identify positions of individual customers based on information provided by clearing members.⁷ However, positions are not presently intended to be carried in individual customer sub-accounts, and positions in OTC options will be margined at OCC in the omnibus customers' account on the same basis as listed options. If a clearing member takes the other side of a transaction with its customer in an OTC option, the transaction will result in the creation of a long or short position (as applicable) in the clearing member's customers' account and the opposite short or long position in the clearing member's firm account. The positions could also be includable in the internal cross-margining account, subject to any necessary regulatory approvals.

The trade data of an OTC option trade will be entered into the system of MarkitSERV or another trade affirmation vendor approved by OCC for this purpose (the "OTC Trade Source"). OCC will permit additional OTC Trade Sources in the future in response to sufficient market demand from OCC's clearing members and subject to the ability of any such OTC Trade Source to meet OCC's requirements for operational readiness and interoperability with OCC's systems, as well as requirements with respect to relevant business experience and reputation, adequate personnel and expertise, financial qualification and such other factors as OCC deems relevant. The trade may be affirmed through one of two methods: (i) both sides of

⁷ Such customer IDs are necessary in order to allow OCC to comply with certain terms of OCC's license agreement with S&P. As described further below, customer IDs will be used for other purposes as well.

the trade enter the trade details into the system of the OTC Trade Source and the trade details are compared and matched by the OTC Trade Source; or (ii) one party to the trade enters the trade details into the system of the OTC Trade Source and the other party to the trade then views the information and affirms it if it is correct. Whichever method is used, OCC will receive a matched trade from the OTC Trade Source. Note that, in either case, the OTC Trade Source merely acts as a messaging system among the parties and OCC to affirm the terms that are agreed to by the parties bilaterally and to transmit that information to OCC. It will be permissible for parties to submit trades for clearance that were entered into bilaterally at any time in the past, provided that the eligibility for clearance will be determined as of the date the trade is submitted to OCC for clearance.⁸ The OTC Trade Source will process the trade and submit it as a matched trade to OCC for clearing. If OCC accepts the trade, OCC will so notify the OTC Trade Source, which will notify the submitting parties. Customers of clearing members may have direct access to the OTC Trade Source for purposes of entering or affirming trade data and receiving communications regarding the status of transactions, in which case mechanisms will be put in place for a clearing member to authorize a customer to enter a trade for the clearing member's customers' account or for the clearing member to affirm a trade once entered.

In order for a clearing member to be approved for clearing OTC options, the clearing member must enter into a standard agreement with MarkitServ (or another OTC Trade Source, if and when OCC enters into arrangements with other OTC Trade Sources). At launch, OTC options will not be subject to the same clearing member trade assignment rules and

⁸ OCC's license agreement with S&P imposes certain minimum requirements relating to time remaining to expiration of the OTC option, as detailed in proposed Interpretation and Policy .01 of Section 6, Article XVII of the By-Laws.

procedures through which exchange-traded options can be cleared by a clearing member other than the executing clearing member. This functionality may be added at a later date. OCC and MarkitSERV will adopt procedures to permit a customer that has an account with Clearing Member A (“CM A”) to enter into an OTC option transaction with Clearing Member B (“CM B”) and have the position included in its account at CM A and cleared in CM A’s customers’ account at OCC.

OTC options will be fungible with each other to the extent that there are OTC options in the system with identical terms. However, OCC will not treat OTC options as fungible with index options listed on any exchange, even if an OTC option has terms identical to the terms of the exchange-listed option.

Clearing members that carry customer positions in cleared OTC options will be subject to all OCC rules governing OCC-cleared options generally, as well as all applicable rules of the SEC and of any self-regulatory organization, including the Financial Industry Regulatory Authority (“FINRA”), of which they are a member.

Regulatory Status of the OTC Options

An OTC option will be a “security” as defined in both the Securities Act of 1933, as amended (the “Securities Act”) and, as noted above, the Exchange Act. OCC will be the “issuer” of the OTC options. The OTC options will be neither “swaps” nor “security-based

swaps” for purposes of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”).⁹

Most of OCC’s clearing members are members of FINRA and subject to FINRA’s rules, which have different provisions for “listed” and “OTC options” and contain various definitions distinguishing between the two. In some cases, OTC options would fall into neither category under FINRA’s definitions and in other cases, they would fall within what OCC perceives to be the wrong category. OCC has suggested to FINRA that it amend certain of its rules to clarify the proper application of such rules to cleared OTC options.

In the event of the insolvency of a broker-dealer that clears customer transactions in OTC options, the Securities Investor Protection Act of 1970, as amended (“SIPA”) would apply. A cleared OTC option is a “security” as defined in SIPA, and in the event of the insolvency of a broker-dealer that carries positions in OTC options for the securities accounts of customers, claims of customers arising from such options would be included in the customer’s “net equity” claim under SIPA. The proceeds of such OTC option positions and margin collateral supporting such positions at OCC that are returned to the trustee for the insolvent clearing member would be treated as “customer property.” The result is that customers’ claims with respect to their OTC options would be entitled to the same priority over the claims of general unsecured creditors of the insolvent clearing member and be entitled to the same protection from the SIPC fund as are other customer claims. As discussed in a meeting among

⁹ Section 1a(47)(A)(i) of CEA, as added by Section 721(a)(21) of Dodd-Frank, defines “swaps” broadly to include options on indices. However, Section 1a(47)(B)(iii) of the CEA excludes from the “swap” definition any option on any index of securities that is subject to the Securities Act and the Exchange Act. A contract that is excluded from the definition of a “swap” under Section 1a(47)(B) (other than Section 1a(47)(B)(x)) is not a “security-based swap” for purposes of Section 3a(68) of the Exchange Act.

representatives of OCC, SIPC and the Commission staff,¹⁰ SIPC intends to submit, or has submitted, to the Commission for approval an amendment to SIPC Rule 400 to include cleared OTC options within the coverage of the Rule, thereby also confirming the status of OTC options under the statute itself. Rule 400 provides an exception to the general policy that customer net equity claims based on securities will be satisfied, to the extent practicable, by delivery of securities. Under SIPC Rule 400, positions in standardized options are generally required to be liquidated as promptly as practicable and customer claims are to be satisfied through delivery of cash. SIPC's proposed amendment would: (i) include the proposed OTC options as standardized options within the coverage of Rule 400, and (ii) eliminate the requirement of the present Rule that customer positions in standardized options (including cleared OTC options) be liquidated as promptly as practicable and to provide express authority for a trustee or SIPC to transfer customer positions to another SIPC member as is permitted under SIPA with respect to customer securities positions generally.

Proposed By-Law and Rule Changes

The specific proposed changes to OCC's By-Laws and Rules to provide for the clearing of OTC options relate primarily to: (i) specification of customizable terms; (ii) procedures for submission and acceptance of trades for clearance; and (iii) specification of criteria for eligibility of clearing members to clear transactions in OTC options and limitation of the types of customers for whom clearing members may effect transactions in OTC options. Otherwise, the currently proposed OTC options will be cleared and settled under the same

¹⁰ Meeting in the Commission's offices, October 20, 2011, among representatives of OCC and Michael Macchiaroli, Thomas McGowan and other Commission staff and Kenneth Caputo of SIPC.

provisions applicable to clearance of listed index options. Many of the proposed amendments are self-explanatory, and we have therefore attempted to confine the following discussion to a broad overview with specific explanation only where the reasons for the change may be less obvious.

Article I of the By-Laws contains defined terms used throughout the By-Laws and Rules. OCC proposes to modify certain existing definitions and include certain new definitions in order to incorporate OTC options into existing rules and facilitate the creation of new provisions unique to OTC options. Throughout the By-Laws and Rules, OCC proposes to replace the term “Exchange transaction,” which is currently defined in Article I, in relevant part, as “a transaction on or through the facilities of an exchange for the purchase, writing or sale of a cleared contract” with the term “matched trade” so as to make the relevant portions of the By-Laws and Rules applicable to transactions in OTC options as well as listed options. “Matched trade” is proposed to be defined in Article I to include transactions “effected on or through the facilities of an exchange” or “affirmed through the facilities of an OTC Trade Source” in order to include transactions in both listed options and OTC options. The current definition of “matched trade” in Rule 101 is proposed to be deleted as unnecessary given the new definition. Much of the length of this rule filing is attributable to the fact that the term “Exchange transaction” is used so many places in the rules. OCC has entered into agreements in the past which reference the term “Exchange transaction” or “exchange transaction.” OCC is also proposing to add an Interpretation and Policy to the new definition of “matched trade” in order to avoid any ambiguity concerning how such terms should be interpreted in any such agreement.

OCC proposes to add a new Interpretation and Policy .10 to Section 1 of Article V of the By-Laws, providing the additional criteria that must be met by a Clearing Member in order to clear OTC index options. Among these new criteria are that Clearing Member seeking to clear OTC index options on underlying indices published by Standard & Poor's Financial Services LLC ("S&P") must execute and maintain in effect a short-form license agreement in such form as specified from time to time by S&P. The current form of S&P short-form index license agreement is attached hereto as Exhibit A.

The Interpretations and Policies under Section 1, Article VI allow clearing members to adjust their positions with OCC for certain enumerated reasons. OCC proposes to amend the Interpretations and Policies to clarify that, consistent with industry conventions in the OTC markets, adjustment of positions in OTC options will be effected through a manual process (as opposed to the electronic process available to post-trade adjustments in listed options), to the extent permitted by OCC. For the same reason, OCC is proposing to amend Rule 403 to prohibit clearing member trade assignment ("CMTA") transactions in OTC options. Trade "give-ups" that are effected through the CMTA process in the case of listed options will, in the case of OTC options, be effected through MarkitSERV before the trades are submitted to OCC for clearing.

Article XVII of the By-Laws governs index options in general and OCC is proposing amendments to Article XVII in order to set forth the terms applicable to the initial OTC options proposed to be cleared by OCC — options on equity indices published by S&P — and to differentiate OTC index options from other index options cleared by OCC. For example, certain amendments to the definitions are necessary because OTC options will be permitted to

have a much wider range of expiration dates and expiration times than exchange-traded options. Additional definitional amendments ensure that OTC index options will constitute a separate class of options from other cash-settled index options even if both index options have the same terms and cover the same underlying interest.

Section 3 of Article XVII provides for adjustment of the terms of outstanding index options as necessary to reflect possible changes in the underlying index — such as those creating a discontinuity in the level of the index — that could theoretically make an adjustment necessary to protect the legitimate expectations of holders and writers of options on the index. Pursuant to paragraph (g) of Section 3, most but not all such adjustments would be made, in the case of listed index options, by an adjustment panel consisting of representatives of the exchanges on which the options are traded. In the case of OTC options, any such adjustments will be made by OCC in its sole discretion. However, in exercising that discretion, OCC may take into consideration adjustment made by the adjustment panel with respect to exchange-traded options covering the same underlying index.¹¹

OCC proposes to add a new Section 6 to Article XVII to set forth certain provisions unique to OTC index options, including the variable terms allowed for OTC index options and the general limitations on such variable terms. In general, all OTC index options must conform to the terms and limitations set forth in Section 6, and additional specific requirements applicable to specific OTC index options will either be set forth in the Interpretations and Policies under Section 6 or published separately on OCC's website. Section

¹¹ Because index options, unlike options on individual stocks, rarely, if ever, require adjustments, allocation of the adjustment authority may have little practical significance.

6 also makes clear that although OTC index options are not fungible with exchange-traded index options, OTC index options of the same series (*i.e.*, options having identical terms) will be fungible with each other. In addition to the terms and limitations applicable to OTC index options, Section 6 will establish that clearing members will be deemed to have made a number of representations and warranties in connection with their activities in OTC options each time they affirm a matched trade entered into an OTC Trade Source.

Chapter IV of the Rules sets forth the requirements for reporting of matched trades to OCC, and Rule 401 thereunder governs reporting of transactions in listed options by participant Exchanges. OCC is proposing to add new Rule 404 to govern the details of reporting of matched trades in OTC options by an OTC Trade Source.

As discussed above, positions in OTC options will generally be margined in the same manner as positions in listed options using STANS and pursuant to Chapter VI of the Rules. However, OCC proposes to amend Rule 611 to establish different procedures for the segregation of long positions in OTC options for margining purposes. Long positions in listed options are held in a clearing member's customers' account or firm non-lien account and by default are deemed to be "segregated," meaning that they are not subject to OCC's lien and are given no collateral value when determining the margin requirement in the account. Such positions may be unsegregated only when a clearing member instructs OCC to unsegregate a long position and represents to OCC that the long position is part of a spread transaction carried for a single customer whose margin requirement on the corresponding short position has been reduced in recognition of the spread. OCC will then unsegregate the long position and so reduce

OCC's margin requirement. However, in case of long positions in OTC options that are carried in a clearing member's customers' account and for which OCC has received a customer ID, OCC proposes that it will automatically unsegregate such long positions if OCC identifies a qualifying short position in OTC options carried under the same customer ID. Clearing members will not be required to give an affirmative instruction to OCC to unsegregate a long position in OTC options or make a separate representation regarding the spread transaction. Instead, by carrying a qualifying spread position in a customer account, clearing members are deemed to have represented to OCC that the customer's margin has been reduced in recognition of the spread. Based on discussion with the clearing members, it is OCC's understanding that, in practice, broker-dealers reduce customers' margin requirements to reflect spread positions. Therefore, OCC believes that automatic recognition of such spreads by OCC together with the deemed representation will greatly increase operational efficiency while providing equal assurance that long positions in OTC options will be unsegregated only if an identified customer will receive the benefit of the reduced margin required for spread transactions.

Rule 1001 sets forth the amount of the contribution that each clearing member is required to make to the clearing fund. OCC proposes to amend Rule 1001(c) so that, for purposes of calculating the daily average number of cleared contracts held by a clearing member in open positions with OCC during a calendar month (which number is used in turn to determine the clearing member's contribution to the clearing fund), open positions in OTC options will be adjusted as needed to account for any differences between the multiplier or unit of trading with respect to OTC options relative to non-OTC options covering the same underlying index or

interest so that OTC options and non-OTC options are given comparable weight in the computation.¹²

In general, the rules in Chapter XI governing the suspension of a clearing member will apply equally to clearing members that transact in OTC options. Rule 1106 provides broad authority for OCC to close out open positions in options carried by a suspended clearing member “in the most orderly manner practicable.” OCC is proposing to amend Rule 1106 to add an additional provision with respect to positions in OTC options. The Commission has recently approved an OCC rule change providing OCC the authority to use an auction process as one of the means by which OCC may close out open positions in listed options carried by a suspended clearing member.¹³ OCC anticipates it will use this auction process for OTC options as well. As an additional protection, however, OCC is proposing to amend Rule 1106 to give OCC the authority, in extraordinary circumstances, to fix a liquidation value for open OTC options positions of a suspended clearing member if OCC determines that fixing a close-out value is the most orderly manner of closing out such positions. This procedure would mean that one or more clearing members having the opposite side of options of the same series as those held by the defaulting clearing member could have their positions involuntarily closed out and would be required to accept or pay the close-out value of the positions as determined by OCC. OCC anticipates that the likelihood of having to exercise this authority is small, and that the authority would only be exercised in the event that OCC is unable to find a counterparty willing to

¹² For example, the index multiplier applicable to OTC index options on the S&P 500 Index will be fixed at 1. See proposed Interpretation and Policy .01 of Section 6, Article XVII of the By-Laws. In comparison, the index multiplier applicable to listed index options is 100.

¹³ See Securities Exchange Act Release 65654 (October 28, 2011), 76 FR 68238 (November 3, 2011).

purchase, or assume the obligations of, open long and short positions of the suspended clearing member at an appropriate value either through the regular OTC market or through the auction process. Nevertheless, in view of the fact that positions in OTC index options are expected to be large and that there may be no active trading market in options with terms precisely identical to the terms of the OTC index options in question, OCC believes that this is an appropriate failsafe provision.

* * *

The proposed changes to OCC's By-Laws are consistent with the purposes and requirements of Section 17A of the Exchange Act because they are designed to permit OCC to perform clearing services for products that are subject to the jurisdiction of the CFTC without adversely affecting OCC's obligations with respect to the prompt and accurate clearance and settlement of securities transactions or the protection of securities investors and the public interest. The proposed rule change is not inconsistent with any rules of OCC.

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. Please include File Number SR-OCC-2011-19 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-2011-19. 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-2011-19 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: _____

Form of Short-form Index License (S&P 500 Index)



INDEX LICENSE AGREEMENT

This **S&P INDEX LICENSE AGREEMENT** ("Agreement") is entered into as of the Effective Date (as set forth below), by and between Standard & Poor's Financial Services LLC, a limited liability company organized under the laws of the state of Delaware ("S&P") whose principal office is located at 55 Water Street, New York, New York 10041; and

LICENSEE NAME:

("Licensee")

STREET
ADDRESS:

CITY, STATE,
ZIP CODE:

TYPE OF
ENTITY/
PLACE OF
FORMATION:

EFFECTIVE
DATE:

1. Subject to the terms and conditions of this Agreement, S&P hereby grants to Licensee a royalty-free, non-exclusive, limited and non-transferable license to (i) use the S&P 500 Index as the sole underlying interest of options contracts that are traded over-the-counter and cleared by a third party clearing agency (referred to herein as "Product") to be issued, entered into, written, sold and/or purchased by Licensee and (ii) use and refer to the trademarks "S&P", "Standard & Poor's", "Standard & Poor's 500" and "S&P 500" (referred to herein as the "S&P Marks" in connection with the distribution, marketing and promotion of the Product and in

connection with making such disclosure about the Product as Licensee deems necessary or desirable under any applicable laws, rules, regulations or provisions of this Agreement, but, in each case, only to the extent necessary to indicate the source of the S&P 500 Index. Any rights not expressly granted herein are hereby reserved by S&P.

2. TERM AND TERMINATION.

- A. In the event of any breach of the material terms or conditions of this Agreement by either party, the other party may terminate this Agreement by giving thirty (30) days prior written notice thereof; provided, however, that such termination shall not take effect if the party in breach cures or corrects the breach within such notice period.
- B. Either party may terminate this Agreement immediately upon written notice to the other if the other party is adjudicated as bankrupt or if a petition in bankruptcy is filed by or against the other party or if the other party makes an assignment for the benefit of creditors or an arrangement pursuant to any bankruptcy act or insolvency laws.
- C. Licensee may terminate this Agreement upon written notice to S&P.
- D. S&P may terminate this Agreement upon ninety (90) days (or upon such lesser period of time if required pursuant to a court order) prior written notice to Licensee if (i) S&P is informed of the final adoption of any legislation or regulation or the issuance of any interpretation that in S&P's reasonable judgment materially impairs S&P's ability to license and provide the S&P 500 Index and/or the S&P Marks under this Agreement in connection with the Product; or (ii) any litigation or proceeding is threatened or commenced and S&P reasonably believes that such litigation or proceeding would have a material and adverse effect upon the S&P 500 Index and/or S&P Marks or upon the ability of S&P to perform under this Agreement.
- E. Upon termination of this Agreement by either party, Licensee shall cease all use of the S&P 500 Index and the S&P Marks and Licensee shall not issue, enter into, write, sell and/or purchase any additional Products, other than Products closing out preexisting positions in Products. At S&P's request, Licensee shall certify to S&P in writing that Licensee has fully complied with this requirement.

3. PROPRIETARY RIGHTS.

- A. Licensee acknowledges that the S&P 500 Index is selected, coordinated, arranged and prepared by S&P through the application of methods and standards of judgment used and developed through the expenditure of considerable work, time and money by S&P and Licensee acknowledges that it has no proprietary interest therein. Licensee also acknowledges that the S&P 500 Index and the S&P Marks are the

exclusive property of S&P, that S&P has and retains all proprietary rights therein and that the S&P 500 Index and its compilation and composition and changes therein are in the control and discretion of S&P.

- B. Licensee acknowledges that S&P, or its third party licensors, is the owner of all right, title and interest in and to the S&P Marks and the goodwill appurtenant thereto. Licensee shall not use or authorize any other party to use the S&P Marks or any confusingly similar designation, trademark, service mark or trade name anywhere in the world for any purposes whatsoever other than as permitted in this Agreement or as otherwise duly licensed.

4. DISCLAIMERS; LIMITATION OF LIABILITY.

Licensee agrees expressly to be bound itself by and furthermore to include all of the following disclaimer and limitation language in the informational materials relating to the Product and upon request, shall furnish a copy or copies thereof to S&P:

"The Product is not sponsored, endorsed, sold or promoted by Standard & Poor's ("S&P"). S&P does not make any representation or warranty, express or implied, to the owners of the [insert Product] or any member of the public regarding the advisability of investing in securities generally or in the Product particularly or the ability of the S&P 500 Index to track general stock market performance. NEITHER S&P NOR ITS AFFILIATES GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS OR COMPLETENESS OF THE S&P 500 INDEX OR ANY DATA INCLUDED THEREIN. S&P AND ITS AFFILIATES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS OR DELAYS THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE S&P 500 INDEX AND THE S&P MARKS. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P OR ITS AFFILIATES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE.

5. GENERAL.

- A. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of New York, U.S.A., without giving effect to its rules of conflict of laws. Licensee agrees to the exclusive jurisdiction of the state and federal courts sitting in New York, New York, U.S.A. for the resolution of any disputes arising from or related to this Agreement.
- B. *Assignment.* This Agreement shall not be assigned or transferred by Licensee without the prior written consent of S&P, and any attempt to

so assign or transfer this Agreement without such consent shall be null and void.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

**STANDARD & POOR'S FINANCIAL SERVICES
LLC**

Signature: _____

Signature: _____

Name: _____
(Please print)

Name: _____
(Please print)

Title: _____
(Please print)

Title: _____
(Please print)

Email: _____
(Please print)

Date: _____
(Please print)

Date: _____
(Please print)