March 28, 2014

VIA ELECTRONIC MAIL

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

Re: Rule Filing SR-OCC-2014-07 Rule Certification

Dear Secretary Jurgens:

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

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

Explanation and Analysis

The principal purpose of this proposed rule change is to amend OCC's Rule 604(b)(4) (the "Rule") to eliminate preferred stock and corporate bonds as acceptable forms of margin assets. Other changes also are proposed to the Rule in order to update its terms and provisions to reflect current practices with respect to the deposit of assets (i.e., common stock, including fund shares and index linked-securities, which are collectively referred to as "common stock") that will continued to be covered by the Rule on the approval of this proposed rule change.

BACKGROUND

OCC historically has sought to permit clearing members to deposit as margin a diverse mix of assets, subject to the application of prudent safeguards designed to ensure such assets present limited credit, market and liquidation risk, as applicable. OCC Rule 604 sets forth the forms of assets eligible to be deposited as margin and conditions that must be satisfied in order for margin credit to be given to such deposits. Eligible forms of margin assets presently are:

cash, Government securities,[1] GSE Debt Securities, money market fund shares, letters of credit, common stock (including fund shares), corporate bonds and preferred stock. Since 1988,[2] OCC has been authorized to accept preferred stock and corporate bonds as margin. OCC recently reviewed its current practices with respect to these two asset types and, for the reasons discussed below, determined they should no longer be accepted as a form of margin.

REVIEW OF PREFERRED STOCK AND CORPORATE BONDS

Preferred stock and corporate bonds (on a combined basis) consistently have accounted for less than one percent of the margin assets on deposit at OCC. Corporate bonds have not been deposited as margin, nor have clearing members attempted to deposit corporate bonds as margin, since March 2012. As of March 6, 2014, preferred stock comprised .13% of OCC's total margin deposits and less than five percent of any individual clearing member's margin deposits.

OCC presently uses a manual process to review the valuation methodology for preferred stocks and corporate bonds. Such review process occurs monthly and contemplates: 1) adequacy of haircuts, 2) volume, and 3) price transparency. While OCC believes this review process is adequate, OCC has concluded it is less robust than the process applied to deposits of common stocks. In comparison, OCC uses STANS, its daily automated Monte Carlo simulation-based margining methodology, to value and risk manage common stocks deposited as margin collateral.[3] STANS calculates haircuts that are regularly tested, taking into account stressed market conditions.

OCC researched the work necessary to integrate preferred stock and corporate bonds into STANS and otherwise automate monitoring and controls as they relate to risk managing these asset types. Given their general lack of utilization as margin collateral, OCC determined that it would be inefficient and ineffective from a cost perspective to expend the significant time, resources and expense needed to complete the required systems development to automate monitoring and assessment processes for these asset types. OCC also concluded that the continued use of its current manual processes may not be fully consistent with Principle 5 of the

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1 OCC defines the term "Government securities" to mean securities issued or guaranteed by the United States or Canadian Government, or by any other foreign government acceptable to the Corporation, except Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS). *See* OCC By-Laws Article I, Section 1(G)(5).

2 *See* Securities Exchange Act Release No. 29576 (August 16, 1991), 58 FR 41873 (August 23, 1991), (SR-OCC-88-03).

3 OCC also uses STANS to value Government securities with the exception of TIPS and Canadian Government securities, which are valued using the haircuts set forth in OCC Rule 604.

CPSS-IOSCO Principles for Financial Market Utilities.[4] OCC is therefore proposing to stop accepting preferred stock and corporate bonds as forms of margin assets and to remove provisions from the Rule pertaining to the deposit of these asset types. OCC notes that after giving effect to this proposed rule change, a varied mix of asset types would still be available to clearing members for deposit as margin.[5]

ADDITIONAL REVISIONS

In connection with reviewing the Rule for the purposes described above, and in order to conform the Rule to current operational practices after giving effect to the proposed rule change, OCC also reassessed the remaining provisions of this Rule as applied to OCC's practices for accepting common stock, the form of margin asset that the Rule would continue to address after Commission approval of this rule filing. As a result of such review, OCC is proposing several additional changes to the Rule. OCC proposes to eliminate a provision that automatically renders a common stock as ineligible for deposit if it is subject to special margin rules under the rules of the listing market. OCC believes that it is not an efficient use of resources to monitor listing markets to determine if a common stock becomes subject to special margin rules. OCC also believes it is currently able to effectively risk manage common stocks that may become subject to special margin rules through existing STANS functionality. Additionally, OCC notes that it may act under Rule 604, Interpretation and Policy .14, to restrict deposits of issues that are subject to special margin rules by a listing market. Moreover, as a result of the proposed elimination of preferred stock as a form of margin asset, OCC proposes conforming changes to remove provisions of the Rule that: (i) limit the amount of margin credit of any single issue to 10% of the market value of margin deposited by Clearing Member because additional charges for concentrated positions are determined under STANS pursuant to Rule 601, and (ii) limit margin credit given to deposits to 70% of daily closing bid prices because haircuts applied to common stock deposits are determined under STANS pursuant to Rule 601.[6] Also, a provision would be added to make explicit that common stock deposits are valued in accordance with Rule 601.[7]

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4 Principle 5 provides that margin collateral accepted by a financial market infrastructure ("FMI") should have low credit, liquidity and market risk and should establish prudent valuation practices and develop haircuts that are regularly tested, taking into account stressed market conditions.

5 OCC discussed this proposal with the Financial Risk Advisory Committee, a working group consisting of representatives of clearing members and exchanges that was formed by OCC to review and comment on risk management proposals under consideration. No concerns were raised by the group during the course of such discussions.

6 OCC has integrated common stocks into the process by which OCC calculates margin requirements using STANS. *See* Securities Exchange Act Release No. 58158 (July 15, 2008), 73 FR 42646 (July 22, 2008), (SR-OCC-2007-20).

7 Id.

IMPLEMENTATION

OCC has advised its clearing members of its intent to eliminate the acceptance of preferred stock and corporate bonds, subject to regulatory approval. Because corporate bonds have not been deposited as margin since March 2012 and are not currently deposited for such purposes, OCC requested clearing members to voluntarily not deposit such asset type pending regulatory approval of this rule filing. OCC further has discussed this planned change with those clearing members maintaining preferred stock as a form of margin deposit and has worked with them to ensure each has developed an appropriate plan to wind down its use of such deposits in light of this proposal. No concerns were raised by clearing members with respect to the elimination of preferred stock and OCC does not anticipate any delay in the implementation of this proposed rule change upon regulatory approval. A final Information Memorandum will be issued once this proposed rule change is eligible to be implemented and OCC will modify its system to prohibit clearing members from depositing preferred stock and corporate bonds as margin collateral thereafter.

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

Risk Management. OCC believes that by implementing the proposed rule change it will be better able to manage the risks associated with discharging its responsibilities as set forth in the DCO Core Principles because preferred stocks and corporate bonds, which have been subject to a manual valuation methodology process, will no longer be accepted as margin assets by OCC. In addition, the proposed rule change will promote more prudent margin valuation practices thereby bettering ensuring that non-defaulting clearing members would not be exposed to losses from a defaulting clearing member.

Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been be given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Item 1 of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

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

Sincerely,

Stephen Szarmack
Vice President & Associate General Counsel

Enclosure

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

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

Item 1. **Text of the Proposed Rule Change**

The Options Clearing Corporation ("OCC") proposes to amend its Rules to eliminate preferred stock and corporate bonds as acceptable forms of margin assets. OCC is also proposing additional amendments to eliminate a provision that automatically renders a common stock as ineligible for deposit if it is subject to special margin requirements under the rules of the listing market, and to also eliminate certain provisions from the Rules that will no longer be applicable upon the elimination of preferred stock as an acceptable form of margin asset. Material proposed to be added to OCC's Rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets.

THE OPTIONS CLEARING CORPORATION

RULES

* * *

CHAPTER XI

Margins

* * *

Form of Margin Assets

RULE 604. (a) [no change]

(b) *Securities.* The types of securities specified in subparagraphs (1) - (4) of this paragraph (b) may be deposited with the Corporation in the manner specified for each.

(1) – (3) [no change]

(4) Equity [*and Debt*] *Issues.* (i) Clearing Members may deposit, as hereinafter provided, common [and preferred] stocks[, and corporate bonds] which meet the standards prescribed below. [In order to be eligible for deposit, preferred stocks must have a market value greater than $10 per share.] Common stocks (including fund shares) must be "covered securities" within the

meaning of Section 18(b)(1) of the Securities Act of 1933. [Corporate bonds must (A) be listed on a national securities exchange and not in default, (B) have a current market value that is readily determinable on a daily basis, and (C) be rated in one of the four highest rating categories by a nationally recognized statistical rating organization.] Common stocks which are neither underlying securities nor fund shares that have as their reference index an index that underlies any cleared contract must have a market value of at least $3 per share, as determined by the Corporation; provided, however, that the Corporation may waive this requirement at its discretion upon a determination that other factors, including trading volume, the number of shareholders, the number of outstanding shares, and current bid/ask spreads warrant such result. An issue that is suspended from trading by[, or subject to special margin requirements under the rules of,] the market that listed or qualified the issue for trading because of volatility, lack of liquidity or similar characteristics, may not be deposited as margin with the Corporation. If the issue is listed or traded on more than one market and the markets do not take the same action, the Corporation will use its discretion to determine which market's actions will be definitive for purposes of this Rule. Each deposit pursuant to this Rule 604 (b)(4) shall be made with respect to a designated account of the Clearing Member. Deposited stocks [and bonds] shall be valued <u>in accordance with Rule 601</u> [on a daily basis at 70% of current market value or such lower value as the Risk Committee of the Corporation may prescribe from time to time with respect to such stocks or bonds, or any of them. In valuing any stock or bond for the purposes of this Rule 604 (b)(4), its current market value shall be deemed to be its price at the close of regular trading hours (as determined by the Corporation) on such national securities exchange or other domestic security market as the Corporation shall determine during the preceding trading day. If such stock or bond was not traded on such market during regular trading hours, the current market value shall be deemed to be the lowest reported bid quotation for such stock or bond at or about the close of regular trading hours on such day. A single issue, i.e., equity or debt with the same CUSIP number, shall not be valued at an amount in excess of 10% of the margin on deposit in the account for which such securities are deposited; provided that this 10% limit shall not apply to: common stock (including fund shares)]. Common stocks deposited pursuant to Rule 610 shall have no value as margin for the purposes of this Rule 604(b)(4).

(ii)-(iii) [no change]

* * *

Item 2. <u>Procedures of the Self-Regulatory Organization</u>

The proposed rule change was approved for filing with the Commission by OCC's Board of Directors at a meeting held on December 3, 2013.

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

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

The principal purpose of this proposed rule change is to amend OCC's Rule 604(b)(4) (the "Rule") to eliminate preferred stock and corporate bonds as acceptable forms of margin assets. Other changes also are proposed to the Rule in order to update its terms and provisions to reflect current practices with respect to the deposit of assets (i.e., common stock, including fund shares and index linked-securities, which are collectively referred to as "common stock") that will continued to be covered by the Rule on the approval of this proposed rule change.

BACKGROUND

OCC historically has sought to permit clearing members to deposit as margin a diverse mix of assets, subject to the application of prudent safeguards designed to ensure such assets present limited credit, market and liquidation risk, as applicable. OCC Rule 604 sets forth the forms of assets eligible to be deposited as margin and conditions that must be satisfied in order for margin credit to be given to such deposits. Eligible forms of margin assets presently are: cash, Government securities,[1] GSE Debt Securities, money market fund shares, letters of credit, common stock (including fund shares), corporate bonds and preferred stock. Since 1988,[2] OCC has been authorized to accept preferred stock and corporate bonds as margin. OCC recently reviewed its current practices with respect to these two asset types and, for the reasons discussed below, determined they should no longer be accepted as a form of margin.

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1 OCC defines the term "Government securities" to mean securities issued or guaranteed by the United States or Canadian Government, or by any other foreign government acceptable to the Corporation, except Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS). *See* OCC By-Laws Article I, Section 1(G)(5).

2 *See* Securities Exchange Act Release No. 29576 (August 16, 1991), 58 FR 41873 (August 23, 1991), (SR-OCC-88-03).

REVIEW OF PREFERRED STOCK AND CORPORATE BONDS

Preferred stock and corporate bonds (on a combined basis) consistently have accounted for less than one percent of the margin assets on deposit at OCC. Corporate bonds have not been deposited as margin, nor have clearing members attempted to deposit corporate bonds as margin, since March 2012. As of March 6, 2014, preferred stock comprised .13% of OCC's total margin deposits and less than five percent of any individual clearing member's margin deposits.

OCC presently uses a manual process to review the valuation methodology for preferred stocks and corporate bonds. Such review process occurs monthly and contemplates: 1) adequacy of haircuts, 2) volume, and 3) price transparency. While OCC believes this review process is adequate, OCC has concluded it is less robust than the process applied to deposits of common stocks. In comparison, OCC uses STANS, its daily automated Monte Carlo simulation-based margining methodology, to value and risk manage common stocks deposited as margin collateral.[3] STANS calculates haircuts that are regularly tested, taking into account stressed market conditions.

OCC researched the work necessary to integrate preferred stock and corporate bonds into STANS and otherwise automate monitoring and controls as they relate to risk managing these asset types. Given their general lack of utilization as margin collateral, OCC determined that it would be inefficient and ineffective from a cost perspective to expend the significant time, resources and expense needed to complete the required systems development to automate monitoring and assessment processes for these asset types. OCC also concluded that

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[3] OCC also uses STANS to value Government securities with the exception of TIPS and Canadian Government securities, which are valued using the haircuts set forth in OCC Rule 604.

the continued use of its current manual processes may not be fully consistent with Principle 5 of the CPSS-IOSCO Principles for Financial Market Utilities.[4] OCC is therefore proposing to stop accepting preferred stock and corporate bonds as forms of margin assets and to remove provisions from the Rule pertaining to the deposit of these asset types. OCC notes that after giving effect to this proposed rule change, a varied mix of asset types would still be available to clearing members for deposit as margin.[5]

ADDITIONAL REVISIONS

In connection with reviewing the Rule for the purposes described above, and in order to conform the Rule to current operational practices after giving effect to the proposed rule change, OCC also reassessed the remaining provisions of this Rule as applied to OCC's practices for accepting common stock, the form of margin asset that the Rule would continue to address after Commission approval of this rule filing. As a result of such review, OCC is proposing several additional changes to the Rule. OCC proposes to eliminate a provision that automatically renders a common stock as ineligible for deposit if it is subject to special margin rules under the rules of the listing market. OCC believes that it is not an efficient use of resources to monitor listing markets to determine if a common stock becomes subject to special margin rules. OCC also believes it is currently able to effectively risk manage common stocks that may become subject to special margin rules through existing STANS functionality. Additionally, OCC notes that it may act under Rule 604, Interpretation and Policy .14, to restrict deposits of issues that are

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5 OCC discussed this proposal with the Financial Risk Advisory Committee, a working group consisting of representatives of clearing members and exchanges that was formed by OCC to review and comment on risk management proposals under consideration. No concerns were raised by the group during the course of such discussions.

subject to special margin rules by a listing market. Moreover, as a result of the proposed elimination of preferred stock as a form of margin asset, OCC proposes conforming changes to remove provisions of the Rule that: (i) limit the amount of margin credit of any single issue to 10% of the market value of margin deposited by Clearing Member because additional charges for concentrated positions are determined under STANS pursuant to Rule 601, and (ii) limit margin credit given to deposits to 70% of daily closing bid prices because haircuts applied to common stock deposits are determined under STANS pursuant to Rule 601.[6] Also, a provision would be added to make explicit that common stock deposits are valued in accordance with Rule 601.[7]

IMPLEMENTATION

OCC has advised its clearing members of its intent to eliminate the acceptance of preferred stock and corporate bonds, subject to regulatory approval. Because corporate bonds have not been deposited as margin since March 2012 and are not currently deposited for such purposes, OCC requested clearing members to voluntarily not deposit such asset type pending regulatory approval of this rule filing. OCC further has discussed this planned change with those clearing members maintaining preferred stock as a form of margin deposit and has worked with them to ensure each has developed an appropriate plan to wind down its use of such deposits in light of this proposal. No concerns were raised by clearing members with respect to the elimination of preferred stock and OCC does not anticipate any delay in the implementation of this proposed rule change upon regulatory approval. A final Information Memorandum will be issued once this proposed rule change is eligible to be implemented and OCC will modify its

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6 OCC has integrated common stocks into the process by which OCC calculates margin requirements using STANS. *See* Securities Exchange Act Release No. 58158 (July 15, 2008), 73 FR 42646 (July 22, 2008), (SR-OCC-2007-20).

7 Id.

system to prohibit clearing members from depositing preferred stock and corporate bonds as margin collateral thereafter.

* * *

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (the "Act")[8] because it promotes the prompt and accurate clearance and settlement of securities transactions for which it is responsible. OCC believes that the proposed elimination of preferred stocks and corporate bonds as acceptable forms of margin is consistent with the Act because these assets are subject to a manual valuation process, not OCC's automated STANS system. STANS provides more expeditious and accurate margin calculations than a manual process. As such, investors and the public will be more confident that OCC will be able to meet its daily settlement obligations because the possibility that clearing member margin deposits would be insufficient should OCC need to use them to complete a settlement will be reduced since margin in the form of preferred stock and corporate bonds valued through a manual process will no longer be permitted. Additionally, OCC will be better able to determine the sufficiency of its margin deposits at any given time since manually valued margin forms of assets, consisting of preferred stock and corporate bonds, will be eliminated. The proposed rule change is not inconsistent with any rules of OCC, including any other rules proposed to be amended.

Item 4. **<u>Self-Regulatory Organization's Statement on Burden on Competition</u>**

OCC does not believe that the proposed rule change would impact, or impose a burden on competition that is not necessary or appropriate in furtherance of the purposes of the

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8 15 U.S.C. 78q-1(b)(3)(F).

Act.[9] Changes to the rules of a clearing agency may have an impact on the participants in a clearing agency, their customers, and the markets that the clearing agency serves. This proposed rule change affects certain clearing members and their customers inasmuch as it eliminates two forms of assets eligible for deposit as margin. However, as stated above, corporate bonds have not been deposited as margin since March 2012 and preferred stock comprises .13% of OCC's total margin deposits and less than five percent of the margin deposits of any individual clearing member.

OCC believes it would be inefficient and ineffective from a cost perspective to expend significant time, resources and expense needed to complete the required systems work to automate monitoring and assessment processes for these asset types in light of their limited usage over time. Moreover, OCC will continue to accept multiple forms of assets from clearing members to meet margin requirements and, based on the quantitative measures concerning clearing member usage of preferred stocks and corporate bonds set forth above, OCC does not believe that the proposed rule change will materially impact users of its services.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Item 5. <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

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9 15 U.S.C. 78q-1(b)(3)(I).

Item 6. **Extension of Time Period for Commission Action**

OCC does not consent to an extension of the time period for Commission action on the proposed rule change.

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

Not applicable.

Item 8. **Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission**

Not applicable.

Item 9. **Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

Item 10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

Item 11. **Exhibits**

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: Stephen Szarmack

Stephen Szarmack,
Vice President and Associate General Counsel

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_______________]; File No. SR-OCC-2014-07)

March 28, 2014

Clearing Agency; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Eliminate Preferred Stock and Corporate Bonds as Acceptable Forms of Margin Assets and Make Additional, Conforming, Rule Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder[2] notice is hereby given that on March 28, 2014, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

OCC proposes to amend its Rules to eliminate preferred stock and corporate bonds as acceptable forms of margin assets. OCC is also proposing additional amendments to eliminate a provision that automatically renders a common stock as ineligible for deposit if it is subject to special margin requirements under the rules of the listing market, and to also eliminate certain provisions from the Rules that will no longer be applicable upon the elimination of preferred stock as an acceptable form of margin asset.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The principal purpose of this proposed rule change is to amend OCC's Rule 604(b)(4) (the "Rule") to eliminate preferred stock and corporate bonds as acceptable forms of margin assets. Other changes also are proposed to the Rule in order to update its terms and provisions to reflect current practices with respect to the deposit of assets (i.e., common stock, including fund shares and index linked-securities, which are collectively referred to as "common stock") that will continued to be covered by the Rule on the approval of this proposed rule change.

BACKGROUND

OCC historically has sought to permit clearing members to deposit as margin a diverse mix of assets, subject to the application of prudent safeguards designed to ensure such assets present limited credit, market and liquidation risk, as applicable. OCC Rule 604 sets forth the forms of assets eligible to be deposited as margin and conditions that must be satisfied in order for margin credit to be given to such deposits. Eligible forms of margin assets presently are: cash, Government securities,[3] GSE Debt Securities, money market fund shares, letters of credit, common stock (including fund shares), corporate bonds and preferred stock. Since 1988,[4] OCC has been authorized to accept preferred stock and corporate bonds as margin. OCC recently reviewed its current practices with respect to these two asset types and, for the reasons discussed below, determined they should no longer be accepted as a form of margin.

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collateral.[5] STANS calculates haircuts that are regularly tested, taking into account stressed market conditions.

OCC researched the work necessary to integrate preferred stock and corporate bonds into STANS and otherwise automate monitoring and controls as they relate to risk managing these asset types. Given their general lack of utilization as margin collateral, OCC determined that it would be inefficient and ineffective from a cost perspective to expend the significant time, resources and expense needed to complete the required systems development to automate monitoring and assessment processes for these asset types. OCC also concluded that the continued use of its current manual processes may not be fully consistent with Principle 5 of the CPSS-IOSCO Principles for Financial Market Utilities.[6] OCC is therefore proposing to stop accepting preferred stock and corporate bonds as forms of margin assets and to remove provisions from the Rule pertaining to the deposit of these asset types. OCC notes that after giving effect to this proposed rule change, a varied mix of asset types would still be available to clearing members for deposit as margin.[7]

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ADDITIONAL REVISIONS

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would be added to make explicit that common stock deposits are valued in accordance with Rule 601.[9]

IMPLEMENTATION

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OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act[10] because it promotes the prompt and accurate clearance and settlement of securities transactions for which it is responsible. OCC believes that the proposed elimination of preferred stocks and corporate bonds as acceptable forms of margin is consistent with the Act

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9 Id.

10 15 U.S.C. 78q-1(b)(3)(F).

because these assets are subject to a manual valuation process, not OCC's automated STANS system. STANS provides more expeditious and accurate margin calculations than a manual process. As such, investors and the public will be more confident that OCC will be able to meet its daily settlement obligations because the possibility that clearing member margin deposits would be insufficient should OCC need to use them to complete a settlement will be reduced since margin in the form of preferred stock and corporate bonds valued through a manual process will no longer be permitted. Additionally, OCC will be better able to determine the sufficiency of its margin deposits at any given time since manually valued margin forms of assets, consisting of preferred stock and corporate bonds, will be eliminated. The proposed rule change is not inconsistent with any rules of OCC, including any other rules proposed to be amended.

(B) <u>Clearing Agency's Statement on Burden on Competition</u>

OCC does not believe that the proposed rule change would impact, or impose a burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.[11] Changes to the rules of a clearing agency may have an impact on the participants in a clearing agency, their customers, and the markets that the clearing agency serves. This proposed rule change affects certain clearing members and their customers inasmuch as it eliminates two forms of assets eligible for deposit as margin. However, as stated above, corporate bonds have not been deposited as margin since March 2012 and preferred stock comprises .13% of OCC's total margin deposits and less than five percent of the margin deposits of any individual clearing member.

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[11] 15 U.S.C. 78q-1(b)(3)(I).

OCC believes it would be inefficient and ineffective from a cost perspective to expend significant time, resources and expense needed to complete the required systems work to automate monitoring and assessment processes for these asset types in light of their limited usage over time. Moreover, OCC will continue to accept multiple forms of assets from clearing members to meet margin requirements and, based on the quantitative measures concerning clearing member usage of preferred stocks and corporate bonds set forth above, OCC does not believe that the proposed rule change will materially impact users of its services.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commissions Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2014-07 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2014-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at http://www.theocc.com/about/publications/bylaws.jsp

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2014-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated Authority.[12]

Kevin M. O'Neill
Deputy Secretary

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

By:______________________________

Print Name:________________________

Date:____________________________

12 17 CFR 200.30-3(a)(12).