

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-68104; File No. SR-OCC-2012-16)

October 25, 2012

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Accelerated Approval of Proposed Rule Change to Accommodate Equity Options That Have a Unit of Trading of 10 Shares

I. Introduction

On September 12, 2012, the Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2012-16. The proposed rule change, which was filed pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ was published for comment in the Federal Register on September 28, 2012.² The Commission received no comment letters regarding the proposal. For the reasons discussed below, the Commission is granting approval of the proposed rule change on an accelerated basis.

II. Description

The proposed rule change will accommodate Mini Options, which are equity options that have a unit of trading of 10 shares.³ OCC proposes to amend its By-Law provision that sets forth the minimum amount of a cash dividend or distribution

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 67917 (September 24, 2012), 77 FR 59687 (September 28, 2012). In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change. The text of these statements, which the Commission has modified, is incorporated into the discussion of the proposed rule change in Section II below.

³ No other changes to OCC’s rules are needed to clear Mini Options, as the definition of “unit of trading” in Article I of OCC’s By-Laws is sufficiently flexible to permit OCC to designate a unit of trading other than the standard 100 shares for particular series or classes of options. Similarly, OCC’s risk management systems will take the number of underlying shares into consideration.

(“Distribution”) on an underlying equity security that will result in an adjustment of outstanding options on that underlying equity security.

In June 2012, the International Securities Exchange and NYSE Arca filed proposed rule changes with the Commission to list and trade Mini Options on a select number of liquid, high-priced and actively traded securities.⁴ Mini Options are intended to expand the choices available to participants in the options markets. Other than the difference in the unit of trading, Mini Options have the same terms, use, and characteristics as standard equity options (“Standard Options”), which cover 100 shares. The Commission approved the exchanges’ request to list and trade Mini Options on September 28, 2012.⁵

Under OCC’s By-Laws, equity options may be adjusted upon the occurrence of certain corporate actions, including Distributions. Currently, OCC’s By-Laws stipulate that a Distribution must be in excess of \$12.50 *per contract* in order for OCC to consider adjusting any type of option contract. Some Distributions, however, would exceed the adjustment threshold in the case of Standard Options, but would not exceed the adjustment threshold in the case of a Mini Option. The reason for this is that the per contract Distribution on the Mini Option would be only 1/10th of the Distribution on the Standard Option, and the adjustment threshold is stated on a *per contract* basis rather than a *per share* basis. OCC does not believe this result to be appropriate given that Mini

⁴ Securities Exchange Act Release Nos. 67284 (June 27, 2012), 77 FR 39545 (July 3, 2012) (SR-ISE-2012-58); 67283 (June 27, 2012), 77 FR 39535 (July 3, 2012) (SR-NYSE Arca-2012-64). For example, Mini Options are proposed to be listed on SPY (SPDR S&P 500), GLD (SPDR Gold Trust) and AAPL (Apple, Inc.).

⁵ See Securities Exchange Act Release No. 67948 (September 28, 2012), 77 FR 60753 (October 4, 2012).

Options are intended to be identical to Standard Options, but for the smaller unit of trading.

Instead, OCC believes that it is appropriate to fashion a new adjustment policy such that a Distribution that would result in an adjustment on a Standard Option would also result in an adjustment on a Mini Option. Moreover, the exchanges that will list Mini Options, as well as OCC clearing members, have expressed a preference for OCC to design an adjustment policy under which OCC makes consistent and parallel adjustments to both Mini Options and Standard Options. Therefore, OCC has proposed to amend the adjustment threshold in Article VI, Section 11A of OCC's By-Laws to \$.125 *per share* from \$12.50 *per contract*.

Furthermore, OCC does not intend for this rule change to affect options contracts that were originally listed with units of trading in excess of 100 shares. The Securities Committee⁶ made this determination because, if OCC applied a \$.125 per share threshold to all option contracts, OCC might not adjust an option contract that has a unit of trading of 1,000 shares for certain Distributions even though such a Distribution may represent a significant dollar amount on a per contract basis.⁷ For example, in the case of an option contract with a unit of trading of 1,000 shares, a Distribution of \$.12 per share would not trigger an adjustment even though the amount of the Distribution would be \$120 on a single 1,000 share contract—far in excess of the existing \$12.50 per contract *de minimis*

⁶ The Securities Committee is authorized under OCC By-Law Article VI Section 11(a) to determine contract adjustments in particular cases and to formulate adjustment policy or interpretations having general applicability. The Securities Committee is comprised of representatives of OCC's participant options exchanges and authorized representatives of OCC.

⁷ OCC has rules to accommodate options with a unit of trading of 1,000 shares, although no such options currently trade.

threshold. To address this adjustment issue, OCC has proposed to retain the existing adjustment threshold of \$12.50 per contract in Article VI, Section 11A of its By-Laws for options contracts that were originally listed in share amounts greater than 100 shares.

III. Discussion

Section 19(b)(2)(C) of the Act⁸ directs the Commission to approve a self-regulatory organization's proposed rule change if it determines that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act⁹ requires, among other things, that the rules of a clearing agency be designed to further several goals, including, among other things: (i) promoting the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts and transactions; (ii) encouraging cooperation and coordination with persons engaged in the clearance and settlement of securities transactions; and (iii) safeguarding securities and funds that are in a clearing agency's custody or control, or for which it is responsible.

The Commission concludes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to OCC. By assuring that traders of Mini Options will receive appropriate adjustments when corporate Distributions are made, the proposed rule change will foster the prompt and accurate clearance and settlement of options contracts, facilitate cooperation with exchanges and others involved in the clearance and settlement of these contracts, and ensure the safety and proper allocation of securities and funds for which OCC is responsible.

⁸ 15 U.S.C. 78s(b)(2)(C).

⁹ 15 U.S.C. 78q-1(b)(3)(F).

Further, the Commission concludes that there is good cause, pursuant to Section 19(b)(2) of the Act,¹⁰ for approving the proposed rule change prior to the 30th day after the date of publication of notice in the Federal Register. As noted above, the Commission has approved proposals by the International Securities Exchange and NYSE Arca to list and trade Mini Options.¹¹ Accelerated approval of this proposed rule change will facilitate the prompt and accurate clearance and settlement of options contracts by ensuring that OCC is fully prepared to clear and settle Mini Options as soon as they begin to trade.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, in particular with the requirements of Section 17A of the Act¹² and the rules and regulations thereunder.

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ See Securities Exchange Act Release No. 67948 (September 28, 2012), 77 FR 60753 (October 4, 2012).

¹² 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-OCC-2012-16) be, and hereby is, APPROVED on an accelerated basis.¹⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Kevin M. O'Neill
Deputy Secretary

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁵ 17 CFR 200.30-3(a)(12).