



June 19, 2007

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: Release No. 34-55788; File No. SR-OCC-2006-19, Proposed Rule Change Relating to Close-Out Netting Procedures

Dear Ms. Morris:

The Dealer Accounting Committee (“the Committee”) of the Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates the opportunity to provide the Securities and Exchange Commission (“the Commission”) with comments on The Options Clearing Corporation’s (“the OCC”) proposed rule change referenced above (“the proposed changes”). Briefly, the proposed changes would amend the OCC’s By-Laws and Rules to provide for close-out netting in the event that the OCC becomes insolvent or otherwise defaults on its clearing obligations.

The proposed changes are designed to allow the OCC’s clearing member firms (“Clearing Members”) to comply with Basel Capital Accord standards relating to bilateral netting. Simplifying somewhat, where firms subject to the Basel Capital Accord<sup>2</sup> have legally enforceable netting arrangements with their counterparties, they are permitted to calculate their capital requirements on the basis of their *net* credit exposure.<sup>3</sup> But while the OCC’s rules provide for the close-out netting of a defaulted or insolvent Clearing Member, the OCC’s rules do not presently contain any provisions that

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<sup>1</sup> SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington, D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

<sup>2</sup> Certain banks, bank holding companies, and broker-dealers that are affiliates of a parent company that is a registrant under the Commission’s Consolidated Supervised Entity (“CSE”) framework will be/are subject to the Basel Capital Accord.

<sup>3</sup> Where there is no legally enforceable netting agreement, the fear is that a representative of a party in bankruptcy may “cherry pick” transactions that benefit the estate of the insolvent party, while rejecting transactions that represent a liability to the estate, thus placing the non-defaulting counterparty in the position of an unsecured creditor.

specifically permit close-out netting in the event of a default or insolvency of the OCC itself. Additionally, establishing a close-out netting rule will clarify the accounting treatment of obligations between the OCC and its Clearing Members. Consequently, a number of the OCC's Clearing Members (including members of the Committee) have asked that the OCC adopt rules to allow for close-out netting in the event of an OCC default or insolvency. The proposed changes are designed to address that request.

The Committee fully supports the OCC's filing, and urges the Commission to grant effectiveness to the proposed changes at the earliest possible date.<sup>4</sup>

The Committee would be pleased to discuss our letter with the Commission staff, or to provide any other assistance that would help facilitate the Commission's review and approval of the OCC's proposed changes. If you have any questions, please do not hesitate to contact the undersigned (212-357-8437), or Kyle Brandon (212-618-0580) or Gerard J. Quinn (212-618-0507) the SIFMA staff advisers to the Committee.

Sincerely,  
*/s/ Matthew Schroeder*

Matthew Schroeder  
Managing Director  
Goldman Sachs & Co.  
Chairman,  
Dealer Accounting Committee

cc: Michael A. Macchiaroli, Associate Director  
Jerry W. Carpenter, Assistant Director  
SEC Division of Market Regulation

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<sup>4</sup> We understand that the OCC will be making certain changes to its filing, primarily to clarify the accounting issues involved. We have had an opportunity to discuss these changes with the OCC and remain fully supportive of its actions.