

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-52830; File No. SR-OCC-2005-15)

November 23, 2005

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Rejection of Erroneous Post-Trade Instructions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,<sup>1</sup> notice is hereby given that on October 26, 2005, 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 primarily by OCC. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>2</sup> and Rule 19b-4(f)(2) thereunder<sup>3</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change**

The proposed rule change will authorize OCC to reject all types of post-trade transactions when OCC determines, in its sole discretion, that the input regarding the adjustment or other transaction contains an error or omission.

**II. Self-Regulatory Organization’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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>3</sup> 17 CFR 240.19b-4(f)(2).

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.<sup>4</sup>

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

Under the proposed rule change, OCC will amend Article VI, Section 1, of its By-Laws by adding paragraph (c) to Interpretations and Policies .01 and will amend Rule 403(b) to expressly authorize OCC to reject all types of post-trade transactions that OCC determines, in its sole discretion, that the input regarding the adjustment or other transaction contains an error or omission.

OCC occasionally receives instructions from clearing members attempting to effect post-trade transactions, such as clearing member trade assignment (“CMTA”)<sup>5</sup> transfers and position adjustments, that appear to be erroneous and that if not corrected would create large settlement obligations that could pose substantial credit risk for OCC. For example, recently an OCC clearing member submitted a CMTA transfer instruction specifying a premium value of \$6,500 instead of \$1.65 that would have produced a \$5 billion settlement requirement. Such mistakes are ordinarily corrected by communicating with the clearing member or clearing members involved. However, OCC may not always be able to contact the affected parties or to obtain a timely agreement as to the appropriate corrective measure.

Currently, OCC's By-Laws and Rules do not expressly authorize OCC to reject post-trade transactions when OCC determines that the input regarding such transactions contains an

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<sup>4</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>5</sup> For an explanation of CMTA, refer to Securities Exchange Act Release No. 51350 (Mar. 9, 2005), 70 FR 12934 (Mar. 16, 2005).

error or omission.<sup>6</sup> Unlike option exchange transactions, for which it is OCC's general policy not to reject, post-trade transactions have not been examined for errors through the trade matching process and, therefore, are more vulnerable to errors and omissions.

OCC believes that the proposed changes are consistent with the purposes and requirements of Section 17A of the Act<sup>7</sup> because such changes are designed to enable OCC to safeguard securities and funds in its possession or control for which it is responsible.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

OCC believes that the proposed rule change will not impact or impose any burden on competition.

**C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others**

OCC has not solicited or received written comments relating to the proposed rule change. OCC will notify the Commission of any written comments it receives.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act<sup>8</sup> and Rule 19b-4(f)(1)<sup>9</sup> thereunder because it constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. At any time within sixty days of the filing of such proposed rule change, the Commission may

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<sup>6</sup> In contrast, OCC Rules 614(c) and (e) authorize OCC to reject erroneous instructions for pledge positions and to release pledged positions, and OCC Rule 2202 enables OCC to reject erroneous stock loan transactions.

<sup>7</sup> 15 U.S.C. 78q-1.

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>9</sup> 17 CFR 240.19b-4(f)(1).

summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### **IV. Solicitation of Comments**

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2005-15 on the subject line

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-9303.

All submissions should refer to File Number SR-OCC-2005-15. 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, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at OCC's principal office and on OCC's Web site at <[http://www.optionsclearing.com/publications/rules/proposed\\_changes/proposed\\_changes.jsp](http://www.optionsclearing.com/publications/rules/proposed_changes/proposed_changes.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-2005-15 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.<sup>10</sup>

Jonathan G. Katz  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).