

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55702; File No. SR-ODD-2007-02)

May 3, 2007

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of Accelerated Delivery of Supplement to the Options Disclosure Document Reflecting Certain Changes to Disclosure Regarding Options Adjustment Methodology and Fund Shares

On September 22, 2006, The Options Clearing Corporation (“OCC”) submitted to the Securities and Exchange Commission (“Commission”), pursuant to Rule 9b-1 under the Securities Exchange Act of 1934 (“Act”),¹ five preliminary copies of a supplement to its options disclosure document (“ODD”) reflecting certain changes to disclosure regarding options adjustment methodology.² On December 22, 2006, OCC submitted to the Commission five preliminary copies of another supplement to the ODD reflecting certain changes to disclosure regarding, among other things, the term “fund shares.”³ On April 27, 2007, OCC submitted to the Commission five definitive copies of a single supplement combining the two preliminary supplements discussed above.⁴

The ODD currently provides general disclosures on the characteristics and risks of trading standardize options. Recently, OCC amended its options adjustment rules to eliminate the need to round adjusted strike prices and/or units of trading in the event of certain stock

¹ 17 CFR 240.9b-1.

² See letter from Jean M. Cawley, First Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division of Market Regulation (“Division”), Commission, dated September 21, 2006.

³ See letter from Jean M. Cawley, First Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division, Commission, dated December 21, 2006.

⁴ See letter from Jean M. Cawley, First Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division, Commission, dated April 26, 2007.

dividends, stock distributions, or stock splits.⁵ OCC also revised the definition of “ordinary dividends and distributions” such that cash dividends or cash distributions announced on or after February 1, 2009, would be considered ordinary if declared on a regular basis pursuant to a policy or practice.⁶ Further, OCC amended its rules to provide that no adjustment would be made for cash dividends or cash distributions less than \$12.50 per contract.⁷ The proposed supplement therefore amends the ODD to accommodate these changes.

The proposed supplement also amends the ODD to reflect certain other changes to OCC rules. To accommodate one such change, the proposed supplement adds disclosure pertaining to OCC’s authority to adjust yield-based Treasury options if an options exchange increases the multiplier for such options.⁸ The proposed supplement also adds disclosure pertaining to OCC’s authority to fix exercise settlement price for yield-based Treasury options in unusual market conditions.⁹ Pursuant to another OCC rule change, the proposed supplement amends the ODD to include acceleration of the expiration date of American-style equity options that have been adjusted to call for cash deliverable.¹⁰

The proposed supplement also amends the ODD to reflect changes to the rules of the option exchanges. For instance, certain options exchanges amended their rules to permit listing

⁵ See Securities Exchange Act Release No. 55258 (February 8, 2007), 72 FR 7701 (February 16, 2007) (SR-OCC-2006-01).

⁶ Id.

⁷ Id.

⁸ See Securities Exchange Act Release No. 50895 (December 20, 2004), 69 FR 78085 (December 29, 2004) (SR-OCC-2004-11).

⁹ Id.

¹⁰ See Securities Exchange Act Release No. 55124 (January 18, 2007), 72 FR 3466 (January 25, 2007) (SR-OCC-2006-20).

and trading of options on fund shares that hold baskets of currencies¹¹ or hold or trade in commodity futures products.¹² Therefore, to accommodate listing and trading of these options, the proposed supplement amends the term “fund shares.”

Lastly, the proposed supplement deletes certain disclosures originally made in February 2003 Supplement.¹³ First, the proposed supplement deletes disclosure pertaining to options series opened before September 16, 2000, as those options have all expired. Second, pursuant to adoption of rules by certain options exchanges to permit cancellation or adjustment of trades resulting from an erroneously reported index level, the proposed supplement deletes the provision disclosing that a person who buys or sells an index option based on such erroneously information is bound by the trade.¹⁴ The proposed supplement is intended to be read in conjunction with the more general ODD, which, as described above, discusses the characteristics and risks of options generally.¹⁵

¹¹ See Securities Exchange Act Releases No. 54087 (June 30, 2006), 71 FR 38918 (July 10, 2006) (SR-ISE-2005-60); 54693 (November 2, 2006), 71 FR 65851 (November 9, 2006) (SR-CBOE-2006-74); and 54983 (December 20, 2006), 71 FR 78476 (December 29, 2006) (SR-Amex-2006-87).

¹² See Securities Exchange Act Releases No. 54450 (September 14, 2006), 71 FR 55230 (September 21, 2006) (approving SR-Amex-2006-44) and 55547 (March 28, 2007), 72 FR 16388 (April 4, 2007) (SR-Amex-2006-110).

¹³ See Securities Exchange Act Release No. 47418 (February 27, 2003), 68 FR 11439 (March 10, 2003)(SR-ODD-2003-01) (“February 2003 Supplement”).

¹⁴ See e.g., Securities Exchange Act Releases No. 50880 (December 17, 2004), 69 FR 77790 (December 28, 2004) (SR-CBOE-2004-83) and 51246 (February 24, 2005), 70 FR 10425 (March 3, 2005) (SR-Amex-2005-11).

¹⁵ The Commission notes that the options markets must continue to ensure that the ODD is in compliance with the requirements of Rule 9b-1(b)(2)(i) under the Act, 17 CFR 240.9b-1(b)(2)(i). Any future changes to the rules of the options markets would need to be submitted to the Commission under Section 19(b) of the Act. 15 U.S.C. 78s(b).

Rule 9b-1(b)(2)(i) under the Act¹⁶ provides that an options market must file five copies of an amendment or supplement to the ODD with the Commission at least 30 days prior to the date definitive copies are furnished to customers, unless the Commission determines otherwise, having due regard to the adequacy of information disclosed and the public interest and protection of investors.¹⁷ In addition, five copies of the definitive ODD, as amended or supplemented, must be filed with the Commission not later than the date the amendment or supplement, or the amended options disclosure document, is furnished to customers. The Commission has reviewed the proposed supplement and finds, having due regard to the adequacy of information disclosed and the public interest and protection of investors, that the proposed supplement may be furnished to customers as of the date of this order.

IT IS THEREFORE ORDERED, pursuant to Rule 9b-1 under the Act,¹⁸ that definitive copies of the proposed supplement to the ODD (SR-ODD-2007-02), reflecting these changes to disclosure, may be furnished to customers as of the date of this order.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁹

Florence E. Harmon
Deputy Secretary

¹⁶ 17 CFR 240.9b-1(b)(2)(i).

¹⁷ This provision permits the Commission to shorten or lengthen the period of time which must elapse before definitive copies may be furnished to customers.

¹⁸ 17 CFR 240.9b-1.

¹⁹ 17 CFR 200.30-3(a)(39).