

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-60872; File No. SR-OCC-2009-14)

October 23, 2009

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Clear Options Based on Index-Linked Securities

I. Introduction

On August 12, 2009, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2009-14 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ The proposed rule change was published for comment in the Federal Register on September 8, 2009.² No comment letters were received on the proposal. This order approves the proposal.

II. Description

The proposed rule change permits OCC to clear options based on index-linked securities (“Index-Linked Securities”).

Index-Linked Securities are non-convertible debt of major financial institutions that typically have a term of at least one year but not greater than thirty years and that provide for payment at maturity based upon the performance of an index or indices of equity securities or futures contracts, one or more physical commodities, currencies or debt securities, or a combination of any of the foregoing. Index-Linked Securities are traded on national securities exchanges and meet the definition of “NMS Stock” under regulation NMS.³ The options

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 60602 (Sep. 1, 2009), 74 FR 46278.

³ Securities Exchange Act Release No. 51808 (Jun. 9, 2005), 70 FR 37496 (Jun. 29, 2005). “NMS Stock” is defined in Rule 600(b)(47) of Regulation NMS as “any NMS security other than an option.” The definition of “NMS Security” in Rule 600(b)(46) of Regulation NMS includes any security for which transaction reports are collected and disseminated under an effective

exchanges will treat options on Index-Linked Securities (“Index-Linked Security Options”) as standardized equity options for listing and trading purposes and will generally govern their trading by the same rules that are applicable to trading in other equity options. Exercises of Index-Linked Security Options will be settled by delivery of the underlying securities in the same manner as exercises of equity options.

OCC is amending its By-Laws and Rules to accommodate Index-Linked Security Options. OCC is adding a definition of “index-linked security” to Article I of its By-Laws, amending the definition of “stock option contract” in Article I of its By-Laws to include Index-Linked Security Options, and amending the definition of “non-equity securities option contract” in Article I of its By-Laws to clarify that Index-Linked Security Options are excluded from the definition. OCC is amending Interpretation and Policy .05 to Article VI, Section 11 A of its By-Laws to clarify that a call of an entire class of Index-Linked Securities will result in an adjustment of Index-Linked Security Options in the event of a cash merger but that a partial call will not result in an adjustment. OCC is adding Interpretation and Policy .10 to Article VI, Section 11A of the By-Laws that would state that interest payments on Index-Linked Securities generally will be considered “ordinary cash dividends or distributions” within the meaning of paragraph (c) Article VI, Section 11A. OCC is adding language to Rule 604(b)(4)(iii) to state that for the purposes of Rule 604, Index-Linked Securities will be treated as stock, assuming they meet the basic listing requirement applicable to stocks. OCC is amending Rule 604(b)(4) to conform its language to its practice of limiting the value of securities with the same CUSIP number, as opposed to securities of the same issuer, to 10% of the margin requirement of an account. OCC is adding Interpretation and Policy .14 to Rule 604(b)(4), which states that OCC

national market system plan. Because Index-Linked Securities are exchange traded, they fall within this definition.

may disapprove for margin credit a security that otherwise meets the Rule 604(b) criteria if other factors warrant such a disapproval.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Commission believes that by amending its By-Laws and Rules to provide for the clearance and settlement of Index-Linked Security Options, the proposal is consistent with the requirements of Section 17A(b)(3)(F),⁴ which requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁵ and the rules and regulations thereunder.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (File No. SR-OCC-2009-14) be, and hereby is, approved.⁷

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.⁸

Elizabeth M. Murphy
Secretary

⁶ 15 U.S.C. 78s(b)(2).

⁷ 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).

⁸ 17 CFR 200.30-3(a)(12).