

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69188; File No. SR-OCC-2013-03)

March 20, 2013

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Add Provisions to the By-Laws to Facilitate the Use of the Stock Loan/Hedge Program by Canadian Clearing Members

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on March 8, 2013, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by OCC. 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 Substance of the Proposed Rule Change

OCC proposes to add provisions to the By-Laws to facilitate the use of the Stock Loan/Hedge Program by Canadian Clearing Members.

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 rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

---

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

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

The purpose of the proposed rule change is to add provisions to the By-Laws governing the OCC's Stock Loan/Hedge Program to facilitate the use of the Stock Loan/Hedge Program by Canadian Clearing Members.

Background

OCC's Stock Loan/Hedge Program is provided for in Article XXI of the By-Laws and Chapter XXII of the Rules, and provides a means for OCC clearing members to submit broker-to-broker stock loan transactions to OCC for clearance. Broker-to-broker transactions are independently-executed stock loan transactions that are negotiated directly between two OCC clearing members.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction. OCC leverages the infrastructure of the Depository Trust Company ("DTC") to transfer loaned stock and collateral between OCC clearing members.

Description of Proposed Rule Change

Currently, for OCC clearing members to participate in OCC's Stock Loan/Hedge Program, they must be members of DTC and maintain accounts to facilitate Delivery Orders

(“DOs”) to approved counterparties for stock loan transactions. Canadian Clearing Members<sup>4</sup> (who are otherwise eligible to participate in the Stock Loan/Hedge Program) are not participants of DTC. For purposes of settling transactions in U.S. equity securities, Canadian Clearing Members ordinarily rely on the services of CDS Clearing and Depository Services Inc. (“CDS”),<sup>5</sup> which provides a cross-border service to clear and settle trades with U.S. counterparties.<sup>6</sup> CDS is Canada’s national securities depository, processing over 413 million trades annually. One of CDS’s services enable its Canadian participants to clear and settle trades (which would include stock loan and borrow transactions) with U.S. counterparties through affiliations with DTC and the National Securities Clearing Corporation (“NSCC”).

Under current OCC Rules 901(a) and (g), Canadian Clearing Members are able to effect settlement of deliver/receive obligations arising from exercised or assigned stock options and matured stock futures by appointing CDS to act as their agent through the arrangements with DTC and NSCC described above.<sup>7</sup> OCC is now proposing to amend Interpretation .07 to

---

<sup>4</sup> OCC By-Laws define a Canadian Clearing Member as a Non-U.S. Clearing Member formed and operating under the laws of Canada or a province thereof with its principal place of business in Canada.

<sup>5</sup> CDS is Canada’s national securities depository, processing over 413 million trades annually. One of CDS’s services enables its Canadian participants to clear and settle trades (including stock loan and borrow transactions) with U.S. counterparties through affiliations with DTC and the National Securities Clearing Corporation (“NSCC”).

<sup>6</sup> OCC is not a party to such cross-border service arrangements.

<sup>7</sup> In January 1994, OCC adopted Rule 913(h) whereby Canadian Clearing Members that settle through the CDS were required to execute a new agreement appointing CDS to act on its behalf, and for which CDS and NSCC would acknowledge such appointment. See Securities Exchange Act Release No. 33543 (January 28, 1994), 59 FR 5639 (February 7, 1994)(SR-OCC-1992-05). In March 2004, OCC restructured Chapter IX of its rules applicable to physical settlement of exercised stock options and matured stock futures, and as part of this rule filing, re-designated Rule 913 as Rule 901. See Securities Exchange Act Release No. 49420 (March 16,

Section 1 of Article V of the By-Laws to allow participation by Canadian Clearing Members in the Stock Loan/Hedge Program by permitting them to appoint CDS to act as their agent in effecting DOs for stock loan transactions through DTC under arrangements similar to those used for deliveries under options and futures.<sup>8</sup> Upon such an appointment, a sponsored sub-account would be established on behalf of the Canadian Clearing Member in a CDS participant account at DTC, through which the Canadian Clearing Member could obtain access to similar DTC services used by U.S. clearing members who maintain participant accounts at DTC in respect to stock loan transactions. Through their identified sub-accounts within a CDS participant account at DTC, Canadian Clearing Members would be able to effect DOs for stock loan transactions to other DTC participants in the same manner as U.S. clearing members. The cross-border service offered by DTC and CDS would enable Canadian Clearing Members to transfer securities between their accounts held at CDS and the identified sub-accounts carried on their behalf in CDS participant accounts held at DTC to effect DOs for stock loan transactions. DTC would continue to play the same role in connection with such transactions as it does with respect to stock loan transactions of all other clearing members, except that DOs would be effected in the identifiable sub-account of the Canadian Clearing Member maintained in a CDS participant account at DTC.

Similar to appointments of CDS under Rules 901(a) and (g), under the amended Interpretation .07 to Section 1 of Article V of the By-Laws, a Canadian Clearing Member that appoints CDS to act for it in connection with the Stock Loan/Hedge Program would be required to agree with OCC that the clearing member remains responsible to OCC in respect of its stock

---

2004), 69 FR 13345 (March 22, 2004) (SR-OCC-2003-08).

<sup>8</sup> Unlike settlement of deliver/receive obligations in respect of stock options and stock futures, stock loan and borrow transactions do not involve NSCC.

loan and borrow positions regardless of any non-performance by CDS, that OCC may treat any failure of CDS to complete delivery or payment required to close an open stock loan or borrow position as a failure by such Canadian Clearing Member, thereby triggering OCC's buy-in and sell-out procedures and such other procedures and remedies as are provided under OCC's Rules, including recourse to the collateral deposited by the clearing member. Accordingly, OCC would have no credit exposure to CDS as the result of a failure by CDS to perform. Also consistent with precedent under Rules 901(a) and (g), in amended Interpretation .07 to Section 1 of Article V of the By-Laws, OCC would seek acknowledgement of CDS and DTC with respect to these arrangements. If, for any reason, CDS ceased to act for one or more Canadian Clearing Members,<sup>9</sup> OCC would have authority to require clearing members to close out open stock loan and borrow positions through buy-in and sell-out procedures, or any other procedures provided in the By-Laws or Rules, if necessary. A copy of the proposed agreement through which a Canadian Clearing Member would appoint CDS to act on the Canadian Clearing Member's behalf, and CDS and DTC would acknowledge this appointment, is included as Exhibit 3A.<sup>10</sup>

As part of the application process to become a clearing member of OCC, any non-U.S. applicant must execute a copy of OCC's Non-U.S. Clearing Member Agreement. In the agreement, the applicant makes certain representations with respect to, among other things, the

---

<sup>9</sup> A Canadian Clearing Member would be obligated, under amended Interpretation .07 to Section 1 of Article V of the By-Laws, to promptly notify OCC in writing if it knew or reasonably expected CDS to cease acting on its behalf, or if CDS had ceased acting on its behalf, with respect to effecting DOs for stock loan and stock borrow transactions.

<sup>10</sup> Both CDS and DTC have reviewed and signed off on this Form of Appointment and Acknowledgement, which is included as Exhibit 3A.

types of transactions it will engage in as a Non-U.S. Clearing Member.<sup>11</sup> In order to accommodate the participation by Canadian Clearing Members in the Stock Loan/Hedge Program as provided in this proposed rule change, OCC proposes to make certain conforming changes to its Non-U.S. Clearing Member Agreement. OCC also proposes to make certain technical changes to its Non-U.S. Clearing Member Agreement for clarity and consistency with its U.S. Clearing Member Agreement.

Finally, for ease of reference throughout the proposed addition to Interpretation .07 to Section 1 of Article V of the By-Laws, OCC proposes to define a Canadian Clearing Member approved to participate in the Stock Loan/Hedge Program as a “Canadian Hedge Clearing Member” for purposes of its By-Laws and Rules.

OCC believes that the proposed changes to OCC By-Laws are consistent with the purposes and requirements of Section 17A of the Act,<sup>12</sup> and the rules and regulations thereunder, because they are designed to promote the prompt and accurate clearance and settlement of stock loan and borrow transactions, foster cooperation and coordination with persons engaged in the clearance and settlement of such transactions, remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions, and, in general, protect investors and the public interest.<sup>13</sup> OCC believes that the proposed changes to OCC By-Laws achieve this by facilitating participation by Canadian Clearing Members in OCC’s Stock Loan/Hedge Program in a manner that protects the clearing system

---

<sup>11</sup> OCC’s By-Laws define “Non-U.S. Clearing Member” as a Non-U.S. Securities Firm that has been admitted to membership in OCC pursuant to the provisions of OCC’s By-Laws and Rules.

<sup>12</sup> 15 U.S.C. 78q-1.

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

against risk through the same or equivalent mechanisms used with respect to domestic clearing members. OCC also believes that the proposed rule change is not inconsistent with the existing OCC By-Laws, including any By-Laws proposed to be amended.

(B) Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposed rule change shall not take effect until all regulatory actions required with respect to the proposed rule change are completed.

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 Commissions 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-2013-03 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2013-03. 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 website (<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 website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 pm. Copies of such filings will also be available for inspection and copying at the principal office of OCC and on OCC's website at [http://www.theocc.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_13\\_03.pdf](http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_13_03.pdf).

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-2013-03 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>14</sup> 17 CFR 200.30-3(a)(12).