

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73725; File No. SR-OCC-2014-19)

December 3, 2014

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Permit the Executive Chairman, the President or a Delegate of Such Officer to Approve Requests by a Hedge Clearing Member to Become a Market Loan Clearing Member

On October 24, 2014, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-OCC-2014-19 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> The proposed rule change was published for comment in the Federal Register on November 3, 2014.<sup>3</sup> The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

I. Description

The purpose of OCC’s rule change is permit OCC’s Executive Chairman, the President or their delegate to approve business expansion requests of Hedge Clearing Members<sup>4</sup> to become Market Loan Clearing Members.<sup>5</sup> Delegates of the Executive Chairman and/or the President must be an officer of the rank of Senior Vice President or

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

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

<sup>3</sup> Securities Exchange Act Release No. 73449 (October 28, 2014), 79 FR 65277 (November 3, 2014) (SR-OCC-2014-19).

<sup>4</sup> See OCC By-Laws, Article 1.H(1). See also, OCC By-Laws, Article V, Section 1, Interpretation and Policy .07.

<sup>5</sup> See OCC By-Laws, Article 1.M(4). See also, OCC By-Laws, Article V, Section 1, Interpretation and Policy .07A.

higher. Currently, OCC's By-Laws require that requests of a Hedge Clearing Member to become a Market Loan Clearing Member be processed through OCC's business expansion process, which involves review and approval by OCC's Risk Committee ("Committee"). As described below, this type of business expansion request is operational and administrative in nature and OCC does not believe review and approval of this type of business expansion request requires the Committee to assess the risk of such designation. Accordingly, OCC is amending its rules to permit the Executive Chairman, the President, or their delegate to approve business expansion requests of Hedge Clearing Members to become Market Loan Clearing Members without further review by the Committee, provided that any delegate be an officer of the rank of Senior Vice President or higher.

According to OCC, the Committee is responsible for reviewing and approving clearing member requests to clear a type or a kind of transaction for which it is not currently approved to clear through OCC (i.e., a business expansion request).<sup>6</sup> The Committee has delegated the Executive Chairman, the Management Vice Chairman, the President, or their delegate with authority to review and approve business expansion requests in response to requests by clearing members for expedited review. Such approval is then subject to the Committee's review and ratification at its next regularly scheduled meeting. If a clearing member does not request expedited review of a business expansion request then such request will be reviewed by the Committee at a regularly scheduled meeting of the Committee, and not by the Executive Chairman, the Management Vice Chairman, the President, or their delegate.

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<sup>6</sup> See OCC By-Laws, Article V, Section 1, Interpretation and Policy .03(e).

In the case of a Hedge Clearing Member requesting a business expansion in order to be approved as Market Loan Clearing Member, the clearing member will have already been subject a robust risk review by the Committee concerning such clearing member's ability to participate in stock loan activity at OCC. Accordingly, the review of the Market Loan business expansion request by either the Committee and/or the Executive Chairman, the Management Vice Chairman, the President, or their delegate would be primarily operational in nature and involve ensuring that the clearing member: 1) is a U.S. Clearing Member, 2) is a member of a Loan Market,<sup>7</sup> 3) is a participant of the Depository Trust Company and has executed certain agreements with the Depository Trust Company, and 4) executes applicable agreements with OCC.<sup>8</sup> The Committee and/or the Executive Chairman, the Management Vice Chairman, the President, or their delegate would also review the current financial risk profile of the clearing member in connection with the business expansion request in order to verify that the clearing member continues to meet OCC's financial requirements. OCC believes that a second risk review by the Committee would be duplicative because the Committee has already analyzed and approved the clearing member's ability to participate in stock loan activity at OCC. In addition, OCC does not believe that review and approval of this type of business expansion request is an appropriate use of the Committee's time given other, more substantive, issues the Committee must consider. Therefore, OCC is amending Article V, Section 1, Interpretation and Policy .03 of its By-Laws to provide the Executive Chairman, the President, or their delegate with the authority to approve the

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<sup>7</sup> See OCC By-Laws, Article 1.L(5).

<sup>8</sup> See, OCC By-Laws, Article V, Section 1, Interpretation and Policy .07A.

business expansion requests of Hedge Clearing Members to become Market Loan Clearing Members without further review by the Committee, provided that any delegate be an officer of the rank of Senior Vice President or higher. According to OCC, it will implement appropriate procedures to ensure that Hedge Clearing Members meet the requirements to become Market Loan Clearing Members and participate in the Market Loan Program.

## II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act<sup>9</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>10</sup> which requires the rules of a registered clearing agency to, among other things, remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. OCC's rule is consistent with Section 17A(b)(3)(F) of the Act<sup>11</sup> because by providing the Executive Chairman, the President or their delegate, provided the delegate is a Senior Vice President or higher, the authority to review and approve the business expansion requests of Hedge Clearing Members that would like to become Market Loan Clearing Members without further review by the Committee, the Committee can have more time to

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<sup>9</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>11</sup> Id.

focus on more substantive matters. As discussed above, the Committee will have already analyzed and approved the clearing member's ability to meet OCC's financial requirements when it approved the clearing member as a Hedge Clearing Member. This business expansion review and approval process can be accomplished by OCC's Executive Chairman, the President, or their delegate, provided that the delegate is an officer of the rank of Senior Vice President or higher, because it is primarily administrative in nature and includes a verification that the clearing member still meets OCC's financial requirements. By giving the Committee more time to focus on more substantive matters, this rule is consistent with removing impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transitions.<sup>12</sup>

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<sup>12</sup> See id.

III. 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 Act<sup>13</sup> and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-OCC-2014-19) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>13</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).