

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74537; File No. SR-OCC-2015-04)

March 19, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change, as Modified by Amendment 1 Thereto, to Expand the Officers Who May Declare That a Clearing Member is Summarily Suspended

On January 23, 2015, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-OCC-2015-04 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on February 11, 2015.³ The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change, as modified by Amendment 1.

I. Description

OCC is amending its Rules to permit OCC to expand the officers who may declare that a clearing member is summarily suspended from OCC. Currently, OCC Rule 1102 provides that only OCC’s Board of Directors (“Board”) and its Executive Chairman may summarily suspend a clearing member. OCC believes that, given the time sensitive nature of managing a clearing member default, it is prudent risk management to expand the number of officers with the authority to summarily suspend a clearing member so that OCC may begin its default management process and, in turn, take protective action as

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 74212 (February 5, 2015), 80 FR 7668 (February 11, 2015) (SR-OCC-2015-04).

soon as possible.

Pursuant to OCC Rule 1102, OCC's Board and Executive Chairman have the authority to summarily suspend a clearing member. As set forth in Interpretation and Policy .01 of Rule 1102, such action constitutes a "default" with respect to the clearing member. OCC's ability to timely and effectively begin its clearing member default management process serves a key role in protecting OCC, non-defaulting clearing members and the public from potential consequential damage(s) that may be caused by the default of a clearing member. In order to provide OCC with the necessary tools to manage a clearing member default, Chapter XI of OCC's Rules provides OCC with the authority to take certain protective action(s) once a clearing member has been summarily suspended (and declared to be in default).⁴ While OCC believes that the authority provided to it in Chapter XI of its Rules is sufficiently robust to manage a clearing member default, OCC may not exercise such authority unless and until a clearing member has been summarily suspended by either the Board or the Executive Chairman.

In order to provide greater assurance that OCC will be able to timely and effectively manage a clearing member default, pursuant to its proposal as approved, OCC is amending Rule 1102 to expand the list of officers who may summarily suspend a clearing member to include OCC's President or a designee of the Executive Chairman⁵ or

⁴ For example, OCC Rule 1106(a) provides OCC with significant flexibility with respect actions it may take in order to close out a defaulting clearing member's open long positions.

⁵ OCC filed Amendment No. 1 in order to correct an inadvertent grammatical error. Specifically, a comma after the word "Executive Chairman" was removed because it caused the description of the proposed rule change to not be consistent with the text of the proposed rule change.

President of the rank of Senior Vice President or higher (each a “Designed Officer”).⁶ OCC believes that the change will provide it with additional operational flexibility because more individuals will be able to timely summarily suspend a clearing member and thereby allow OCC to exercise its authority to manage a clearing member default. OCC’s clearing member default management process is designed to protect OCC, non-defaulting clearing members and the public from the defaulting clearing member without materially impacting financial markets.⁷ By providing additional officers with the authority to summarily suspend a clearing member, and thereby allow OCC to begin its default management processes, there will be greater assurance that OCC will timely take action(s) necessary to protect itself, non-defaulting clearing members, and the public from a defaulting clearing member. OCC also is amending Rule 1102 to require notification to the Board as soon as practicable should a Designated Officer summarily suspend a clearing member.⁸ The addition of such a requirement will ensure that the Board is timely informed of such suspensions.

Furthermore, pursuant to this rule change as approved, OCC is making conforming amendments consistent with the above to Article VI, Section 25 of its By-Laws and OCC Rule 707, which concern the summary suspension of clearing members that participate in OCC’s cross-margining programs. Specifically, Article VI, Section of OCC’s By-Laws and OCC Rule 707 will explicitly state that the Board of Directors or a

⁶ OCC’s proposal is similar to the summary suspension process employed by the National Securities Clearing Corporation (“NSCC”). *See* NSCC Rule 46, Section 3.

⁷ A description of OCC’s default management process is located at: <http://www.theocc.com/risk-management/default-rules/>

⁸ OCC staff will notify the Board within two hours of the summary suspension.

Designated Officer may summarily suspend a clearing member based on a cross-margining related default.

Except for the changes described above, no other changes are proposed to OCC's suspension or default management processes as set forth in the Rules, including a clearing member's right to appeal a summary suspension in accordance with OCC Rule 1110.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁹ 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, which requires, among other things, that the rules of a clearing agency are designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁰ By expanding the list of officers with the authority to summarily suspend a clearing member, OCC will be better able to ensure that has the ability to timely begin the clearing member default management processes. In turn, timely beginning the default management process will further the safeguarding of securities and funds which are in the custody or control of OCC, or for which it is responsible.

⁹ 15 U.S.C. 78s(b)(2)(C).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

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 Act¹¹ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-OCC-2015-04), as modified by Amendment 1, be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Brent J. Fields
Secretary

¹¹ 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).

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).