

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62854; File No. SR-OCC-2010-14)

September 7, 2010

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Revise its Rules to Expand the Forms of Collateral Eligible for Incorporation in the System for Theoretical Analysis and Numerical Simulations Risk Management Methodology

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on August 25, 2010, 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 the Substance of the Proposed Rule Change

The purpose of this proposed rule change is to revise OCC’s Rules to expand the forms of collateral eligible for incorporation in the System for Theoretical Analysis and Numerical Simulations (“STANS”) risk management methodology.

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 these statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The proposed rule change would make a change to Interpretation and Policy .06 under Rule 601 in connection with expanding the forms of collateral eligible for incorporation in the STANS risk management methodology. Currently, OCC incorporates common stock and ETFs³ in the STANS margin calculation process.⁴ When OCC began including common stock and ETFs in the STANS margin calculation process, it noted its belief that the procedure would more accurately measure risk in Clearing Members' accounts and thereby permit OCC to more precisely set margin requirements to reflect that risk. For those same reasons, OCC now proposes incorporating certain fixed-income, "government securities" into the STANS margin calculation process.

The specific amendments proposed to OCC's Rules to facilitate incorporation of government securities in the STANS margin calculation process can be found at http://www.optionsclearing.com/components/docs/legal/rules_and_bylaws/sr_occ_10_14.pdf

OCC would incorporate certain "government securities" into the STANS margin calculation in phases beginning with U.S. Government securities.⁵ Treasury Inflation Protected Securities and callable U.S Treasury Securities would be excluded from the initial phase as would Canadian government securities and GSE debt securities.⁶

³ ETFs fall within the definition of "fund shares" as that term is defined in Article I, Section 1 of OCC's By-Laws.

⁴ Securities Exchange Act Release No. 34-58158 (July 15, 2008), 73 F.R. 42626 (July 22, 2008)(SR-OCC-2007-20).

⁵ This would include but not be limited to Government securities and GSE debt securities.

⁶ The government securities initially excluded would be evaluated for possible inclusion in STANS as appropriate models are developed.

Currently, government securities deposited as collateral to satisfy margin requirements are priced on a nightly basis and are assigned a value equal to their current market value less an applicable haircut based on the term to maturity. While this method of valuing collateral has generally served OCC well in the past, OCC believes analyzing cleared positions and margin assets as a single portfolio using STANS provides a more accurate valuation of the Clearing Members' securities deposited as collateral in relation to other account positions. As when OCC began including common stocks and ETFs in the STANS calculation, OCC believes phasing in government securities would align risk-management techniques utilized to manage market risk of cleared positions, for example for Treasury futures contracts, with those techniques used to value margin deposits.

The proposed inclusion of government securities into STANS would be implemented using an approach similar to that used for adding common stocks and ETFs. The value of the securities deposited in a Clearing Member's account would be determined along with the risk on the margin assets on a portfolio basis with reference to the volatility and correlation of each deposited security to the other positions in the account. Given the conservative nature of the current haircuts applied to deposits of government securities, OCC anticipates a modest increase in their collateral valuation should this change be implemented.

As a part of this proposal, OCC would apply a portfolio specific adjustment factor when determining whether sufficient margin excess resides in an account. This would enable OCC to release margin collateral to a Clearing Member on an intraday basis. The adjustment factor is account and security specific and is determined by approximating the change in margin requirement caused by depositing or withdrawing a particular security from the Clearing Member's account based on the risk characteristics of that security and its consequent assessed

value. OCC believes this process would provide a more accurate projection of the margin impact of collateral withdrawals and substitutions on a Clearing Member's account. It is currently used to analyze the impact of substitutions and withdrawals of equity collateral within the STANS Monte Carlo simulations.⁷

OCC's Rule 601, "Margin Requirements" already provides that margin assets in the form of securities may be incorporated into the Monte Carlo calculations as an alternative to valuing such assets under Rule 604, "Form of Margin Assets". In connection with incorporating common stocks and ETFs into the STANS calculation, OCC adopted Interpretation and Policy .06 under Rule 601 to clarify that margin assets in the form of common stocks and ETFs would be included in the Monte Carlo simulations described in Rule 601 for purposes of determining the minimum expected liquidating value of an account with other margin assets being valued as provided for under Rule 604.⁸ OCC now proposes broadening the interpretation to provide that OCC may designate those margin assets which, if deposited into a Clearing Member's account, will be valued as provided in Rule 601 rather than Rule 604. This change is intended to facilitate OCC's proposal incorporate certain government securities into the STANS margin calculation process.

⁷ OCC believes the approach currently used to assess the impact of collateral substitutions and withdrawals represents an improvement over that outlined in File No. SR-OCC-2007-20. Interpretation and Policy .01 under Rule 608 generally provides that OCC may specify procedures from time-to-time to assess the impact of collateral withdrawals and substitutions.

⁸ Rule 604(f) provides that, in lieu of the valuations provided for in Rule 604, OCC may elect to value any or all margin assets in the form of securities pursuant to Rule 601.

OCC believes the proposed rule changes are consistent with the requirements of Section 17A of the Act⁹ and the rules and regulations thereunder because the proposed rule changes would promote accuracy in the clearance and settlement of cleared contracts and in the risk assessments relative thereto, and would promote efficiency and eliminate unnecessary costs to investors by determining margin requirements with better precision, and, in general, to protect investors and the public interest. The change accomplishes these purposes by more accurately valuing collateral deposits.

(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.

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

Written comments relating to the proposed rule change have not been solicited or received. OCC will notify the Commission of any written comments received by OCC.

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

Within forty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date 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.

⁹ 15 U.S.C. 78q-1.

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. Please include File Number SR-OCC-2010-14 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2010-14. 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. 20549-1090, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filings will also be available for inspection and copying at the

principal office of the OCC and on OCC's website at

<http://www.optionsclearing.com/about/publications/bylaws.jsp>

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-2010-14 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.¹⁰

Elizabeth M. Murphy
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).