

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66676; File No. SR-OCC-2012-03)

March 29, 2012

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to More Closely Align OCC's By-Laws and Rules with Regulatory Requirements Related to "Statutory Disqualifications"

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 15, 2012, 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

The proposed rule change would more closely align OCC's By-Laws and Rules with applicable regulatory requirements related to "statutory disqualifications" under the Act in order to reduce the overall administrative burden on OCC associated with addressing the statutory disqualification of OCC clearing members ("Clearing Members") and applicants for clearing membership ("Applicants") while giving guidance to Clearing Members and Applicants as to OCC's policies with respect to statutory disqualifications.

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

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

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.<sup>3</sup>

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

The purpose of this proposed rule change is to more closely align OCC’s By-Laws and Rules with applicable regulatory requirements related to “statutory disqualifications” under the Act in order to reduce the overall administrative burden on OCC associated with addressing the statutory disqualification of Clearing Members and Applicants while giving guidance to Clearing Members and Applicants as to OCC’s policies with respect to statutory disqualifications. OCC is also proposing to amend its “Fitness Standards for Directors, Clearing Members and Others” (“Fitness Standards”) to bring such standards into conformity with the proposed amendments to OCC’s By-Laws. The Fitness Standards were submitted to the Commission in SR-OCC-2011-12 and approved by the Commission on October 27, 2011.<sup>4</sup>

Background

Persons who have engaged in certain types of misconduct are subject to “statutory

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

<sup>4</sup> Securities Exchange Act Release No. 34-65648 (October 27, 2011), 76 FR 68236 (November 3, 2011).

disqualification,” as defined by Section 3(a)(39) of the Act, and must undergo a review by the Commission under Rule 19h-1 of the Act in order to enter or continue in membership in a self-regulatory organization (“SRO”). Section 17A(b)(4)(A) of the Act provides that a registered clearing agency may, and in cases in which the Commission so orders must, deny participation to any person subject to a statutory disqualification. This provision further requires a registered clearing agency to provide the Commission with 30-days’ notice before admitting a statutorily disqualified person to clearing membership. Rule 19h-1 of the Act implements these statutory provisions by requiring notice to the Commission if a registered clearing agency proposes either to admit to membership or to continue as a member a person subject to a statutory disqualification. Notably, unlike in the case of a national securities exchange or registered securities association, the rule does not require a registered clearing agency to file such a notice with respect to statutory disqualifications of associated persons of a Member or Applicant. A registered clearing agency is required to file such a notice only when the Member or Applicant itself is subject to the disqualification.

Article V of OCC’s By-Laws establishes the qualifications required of Clearing Members and sets forth the procedures for admitting persons to clearing membership, including those that are or become subject to a statutory disqualification. Currently, Interpretation and Policy .03 of Article V, Section 1 of OCC’s By-Laws provides that the Membership/Risk Committee (“Committee”) will not recommend the approval of an application for membership if the Applicant or an associated person is subject to a statutory disqualification unless the Committee makes a finding that “special circumstances” exist warranting a waiver of the statutory disqualification. The requirements of this By-Law are more stringent than those applied to registered clearing agencies by the Act or Commission rules because they require the Committee

to (i) make specific findings of “special circumstances” before recommending membership approval and (ii) address statutory disqualifications of associated persons. The By-Laws therefore impose additional administrative burdens on OCC that are not required under any statute or rule administered by the Commission.

Neither Article V of the By-Laws nor OCC’s Rules currently contain procedures for notice to OCC that an Applicant or Clearing Member is subject to a statutory disqualification, which provides insufficient guidance to Applicants and Clearing Members and exposes OCC to the risk that such notice may be given on a delayed basis. OCC’s By-Laws and Rules are also silent as to the procedures to be followed by a Clearing Member when it becomes subject to a statutory disqualification even though Rule 19h-1 requires a registered clearing agency to file a notice if it intends to permit such a firm to remain a Clearing Member.

As a registered derivatives clearing organization (“DCO”), OCC is also subject to the jurisdiction of the Commodity Futures Trading Commission (“CFTC”). OCC’s By-Laws also address statutory disqualification under Section 8a(2)-(4) of the Commodity Exchange Act (“CEA”), which allows the CFTC to refuse to register or to suspend the registration of futures commission merchants and other entities required to register under the CEA. Neither the CEA nor the CFTC’s regulations require DCOs to file a notice similar to that required by Rule 19h-1, and OCC therefore is not proposing to amend Article V or the Rules to specifically address statutory disqualifications under the CEA other than to clarify that if a principal of a futures commission merchant is subject to a statutory disqualification, the Membership/Risk Committee has discretion to not recommend the approval of such futures commission merchant’s application for membership pursuant to Section 8a(2) of the CEA or to determine not to permit such a futures commission merchant to continue in Clearing Membership.

In addition to being consistent with the Commission's regulations, OCC's Fitness Standards, as described above, were constructed in part to comply with core principles ("Core Principles") applicable to DCOs as these core principles were amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act and as are set forth in the CEA. The Fitness Standards establish certain minimum fitness criteria for directors, Clearing Members, and their affiliates sufficient to comply with Core Principle O as set forth in the CEA.<sup>5</sup> However, the Fitness Standards were also drafted to conform to OCC's existing qualification standards for Clearing Members, which standards OCC is now proposing to revise. Accordingly, OCC proposes to amend the Fitness Standards to conform them to the proposed amendments to the qualification standards for Applicants and Clearing Members in OCC's By-Laws.

#### Proposed By-Law Changes

Article V (Clearing Members) sets forth the qualifications for Clearing Members. OCC proposes to amend the current Article V provisions addressing statutory disqualifications to eliminate provisions that require unnecessary Committee action and to add provisions designed to ensure that OCC receives appropriate notice of a statutory disqualification in order to discharge its obligations as an SRO. The proposed amendments are generally based on similar rules of the National Securities Clearing Corporation and the Chicago Board Options Exchange. OCC proposes to amend Article V, Section 1, Interpretation and Policy .03 (Experience and Competence) to:

1. Eliminate the requirement that the Committee must find "special circumstances" warranting the waiver of a statutory disqualification in order to recommend an Applicant's approval for clearing membership providing instead that the

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<sup>5</sup> Commodity Exchange Act Section 5b(c)(2)(O); 7 U.S.C 7a-1(c)(2)(O).

Committee may in its discretion consider a statutory disqualification in determining whether or not to recommend approval.

2. Eliminate the requirement that the Committee address the status of associated persons who are subject to statutory disqualifications.
3. Establish procedures requiring Clearing Members and Applicants to provide notice of a statutory disqualification.
4. Eliminate the second paragraph of subsection c. The definition of statutory disqualification in subsection a. includes the conduct covered by Section 15(b)(4)(B) of the Act, making the second paragraph of subsection c. redundant.

OCC proposes to amend Chapter II and Chapter XII of its Rules to:

1. Establish procedures applicable to Clearing Members who are or become subject to a statutory disqualification to provide that: (i) OCC has the discretion not to permit any such Clearing Member to continue in Clearing Membership, (ii) such Clearing Member must notify OCC of any statutory disqualification and may seek to continue in Clearing Membership, (iii) a failure to notify OCC of a statutory disqualification may be deemed a violation of OCC's rules, (iv) OCC may convene a Disciplinary Committee to conduct a hearing concerning a Clearing Member's statutory disqualification, (v) OCC has discretion to waive such provisions if another self-regulatory organization is conducting a proceeding addressing a Clearing Member's statutory disqualification with respect to the same matter, and (vi) OCC has discretion to waive the hearing provisions if OCC intends to grant the Clearing Member's application to continue in Clearing Membership in certain circumstances.

2. Add Interpretation and Policy .01 to Rule 1201 in order to clarify that a decision to suspend or expel a Clearing Member after a disciplinary proceeding under Chapter XII of the Rules would be grounds for summary suspension under Chapter XI of the Rules.

OCC also proposes to amend its Fitness Standards to conform them to the proposed amendments to OCC's By-Laws.

OCC believes that the proposed changes to its By-Laws are consistent with the purposes and requirements of Section 17A of the Act<sup>6</sup> and the rules and regulations thereunder applicable to OCC because they are designed to more closely align OCC's By-Laws and Rules with applicable regulatory requirements, establish standard notification and other procedures, provide Clearing Members with guidance as to OCC's policies regarding statutory disqualifications, facilitate the timely filing of notices pursuant to Rule 19h-1 should OCC determine to admit to membership or continue in membership any person subject to a statutory disqualification and are not designed to permit unfair discrimination in the admission of participants or among participants in the use of OCC. The proposed rule change is not inconsistent with any rules of OCC.

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

OCC believes that the proposed rule change will not 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 relating to the proposed rule change have not been solicited or

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<sup>6</sup> 15 U.S.C. 78q-1.

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 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.

### 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 Commission's 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-2012-03 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-2012-03. 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 p.m. 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.optionsclearing.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_12\\_03.pdf](http://www.optionsclearing.com/components/docs/legal/rules_and_bylaws/sr_occ_12_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-2012-03 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>7</sup>

Kevin O'Neill  
Deputy Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).