

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74432; File No. SR-OCC-2015-03)

March 4, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning the Execution of an Agreement for Clearing and Settlement Services between OCC and NASDAQ Futures, Inc.

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 February 20, 2015, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

OCC is proposing to execute an Agreement for Clearing and Settlement Services (“Clearing Agreement”) between OCC and NASDAQ Futures, Inc. (“NFX”) in connection with NFX’s intention to resume operating as a designated contract market (“DCM”) regulated by the Commodity Futures Trading Commission (“CFTC”).

II. Clearing Agency’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

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

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

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.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

OCC is proposing to provide clearance and settlement services to NFX pursuant to the terms set forth in the Clearing Agreement. NFX has been re-designated by the CFTC as a DCM.<sup>3</sup> The purpose of this proposed rule change is to provide notice regarding the Clearing Agreement so that OCC may begin providing clearing and settlement services for NFX in the second quarter of 2015.

**Background**

By way of background, NFX previously operated as a DCM and cleared its futures contracts through OCC. As such, OCC and NFX had previously entered into a Second Amended and Restated Agreement for Clearing and Settlement Services ("Previous Agreement") dated January 13, 2012.<sup>4</sup> Subsequently, as of January 31, 2014, NFX ceased operations as a contract market and became a dormant contract market under CFTC Regulations.<sup>5</sup> As a result, the Previous Agreement was terminated pursuant to its

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<sup>3</sup> See <http://www.cftc.gov/ucm/groups/public/@otherif/documents/ifdocs/nasdaqorderofreinstatement.pdf>.

<sup>4</sup> See Securities Exchange Act Release No. 66340 (February 7, 2012), 77 FR 7621 (February 13, 2012) (SR-OCC-2012-02).

<sup>5</sup> See 17 CFR 40.1.

terms<sup>6</sup> and the clearing relationship between OCC and NFX terminated.

### **Clearing Agreement Proposal**

On November 21, 2014, NFX was approved by the CFTC as a DCM.<sup>7</sup> In connection with that approval, OCC is now proposing to provide the clearance and settlement services as described in the Clearing Agreement. The Clearing Agreement is substantially similar to the Previous Agreement with several differences discussed in more detail below.

The Clearing Agreement has been amended to allow OCC more flexibility in determining which products it will clear based upon OCC's conclusion that it is able to appropriately risk manage such products using commercially reasonable standards.<sup>8</sup>

More specifically, the following changes have been made:

- Section 3(a) of the Clearing Agreement, "General Criteria for Underlying Interests," has been amended to permit NFX to select the underlying interests that are the subject of currency futures, commodity futures, and/or futures options to be traded on NFX only if OCC is satisfied that it is able to appropriately risk manage the contract with the proposed underlying interest using commercially reasonable efforts.

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<sup>6</sup> More specifically, the Previous Agreement, in relevant part, stated that it would terminate if NFX terminates trading of all Cleared Contracts. *See* Section 19(b) of the Previous Agreement. *See also* note 4 supra.

<sup>7</sup> *See* note 3 supra.

<sup>8</sup> *See* Sections 3(a) and 9 of the Clearing Agreement in which language has been added allowing such flexibility.

- Section 9 of the Clearing Agreement, “Limitations of Authority and Responsibility,” has been amended to specify that OCC shall have no responsibility to enforce standards relating to the conduct of trading on NFX unless OCC finds it reasonably necessary in order to appropriately risk manage the products that are being traded on NFX.

In addition to the above, the Clearing Agreement will also make several changes to the Previous Agreement, which include:

- Section 3(c), “Procedures for Selection of Underlying Interests,” has been amended to state that NFX must submit a certificate for a new class of contracts not already listed or traded on NFX as soon as practicable (rather than ten days prior to the commencement of trading). It has also been amended to state that OCC will be obligated to use commercially reasonable efforts to authorize the clearance and settlement of such contracts as soon as practicable. In addition, the Clearing Agreement expressly obligates NFX to provide OCC with any additional information as requested by OCC from time to time that will assist OCC in identifying a new product proposed for clearing by NFX. OCC believes that these amendments to Section 3(c), related to the procedures for the selection of underlying interests, will ensure that OCC not only has the correct information needed to evaluate a proposed new product but that the information will be produced to OCC in a timely manner which will provide OCC sufficient time to evaluate the proposed new product.

- Section 3(d), “Notice of Additional Maturity or Expiration Dates,” has been amended to state that, for a class of products previously certified, NFX may introduce a new maturity or expiration date that is in the cycle set forth in the certificate by providing notice to OCC through electronic means specified by OCC. The Previous Agreement required such notice to be sent to OCC only by email or facsimile.
- A universal conforming change has been made to various sections in the Clearing Agreement to replace the term “matched” trades with “confirmed” trades to better describe trades that are processed for clearance and settlement.<sup>9</sup>
- Section 5(a), “Confirmed Trade Reports,” has been amended to remove language discussing the possibility that NFX will provide OCC with a confirmed trade report on a real time basis as this capability is already captured in the language “as the Corporation may reasonably prescribe.”
- Section 5(c)(i) has been amended to include language that will allow OCC to determine the final settlement price for a futures contract in which the underlying interest is a cash-settled foreign currency if the organized market in which that foreign currency future is traded on, or the foreign currency itself, did not open or remain open for trading at or before the time in which the settlement price for such futures contract would ordinarily be determined. In addition, Section 5(c)(i) has been amended to

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<sup>9</sup> See Article I, Section 1(C)(28) of OCC’s By-Laws. See also Sections 3(g), 6(a), 7, 19, and Schedule A, Section 1 of the Clearing Agreement.

include a reference to “variance” when listing factors that will allow OCC to determine a final reasonable settlement price, if not reported at the ordinary time of final settlement. OCC believes that these additions to the Clearing Agreement clarify the potential underlying interests in which NFX may introduce futures contracts and make the Clearing Agreement more precise.

- Section 7, “Acceptance and Rejection of Transactions in Cleared Contracts,” has been amended to include a provision that will allow OCC, in accordance with its By-Laws, to reject transactions due to validation errors which will allow OCC to better manage its clearance and settlement obligations by expressly allowing it to reject transactions that do not contain complete terms. These validation errors include, for example, an incorrect Clearing Member, account, product or format.
- Section 8, “Non-Discrimination,” has been amended to delete a provision restricting OCC from changing its By-Laws or Rules in any manner that may limit its obligations to clear and settle for NFX. In addition, a provision has been deleted requiring OCC to amend the Clearing Agreement in the event that OCC has made changes to its standard form agreement for clearing and settlement services. Section 8 has also been amended to delete a provision stating OCC is required to consult with NFX and modify OCC’s By-Laws or Rules to incorporate product design features specified by NFX for new products. OCC believes that these provisions are no longer necessary as they limit OCC’s ability to modify

its By-Laws, Rules and agreements which may be necessary for OCC to fulfill its obligations as a clearing organization. OCC will, however, continue to be obligated to fulfill both the provisions of the Clearing Agreement and OCC's regulatory responsibilities. Section 8 has additionally been amended to delete an obligation for each party to provide the other with proposed rule changes. The elimination of this contractual obligation reflects the parties' determination that their respective obligations to post filed regulatory submissions on their public websites provides sufficient notice of such changes.

- Section 11, "Financial Requirements for Clearing Members," has been amended to delete a provision stating the specific financial responsibility standards OCC has with respect to its Clearing Members. This change was made to further streamline the Clearing Agreement given OCC's general obligation to remain consistent with OCC By-Laws and Rules.
- Section 14, "Programs and Projects," has been amended to eliminate a provision expressly requiring OCC to offer futures contract clearing terms to NFX that are no less favorable to the terms offered to other exchanges.
- Sections 15 and 24 in the Previous Agreement, "Information Sharing" and "Quality Standards" respectively, have been deleted in their entirety in an attempt to simplify the Clearing Agreement as the sections create unnecessary obligations on the parties and are duplicative of general regulatory responsibilities of both parties.

- Section 18(b), “Other Grounds for Termination,” has been amended to include a provision that OCC may terminate the Clearing Agreement at any time so long as NFX is given 120 days prior written notice. The addition of this provision better balances the rights of both parties to terminate the Clearing Agreement at their discretion provided that proper notice is given as required by the Clearing Agreement.
- Various administrative changes have been made throughout the document including, but not limited to, an amended legal name and description of NFX, updated references to sections within the document, and clean-up changes of duplicative terms.

Finally, Schedule A of the Clearing Agreement, “Description of Clearing and Settlement Services” and Schedule B of the Clearing Agreement, “Information Sharing,” have been amended making several changes to the Previous Agreement, which include:

- Section (1) of Schedule A of the Clearing Agreement, “Trade Acceptance,” has been updated to reflect current OCC operational requirements with respect to submission of confirmed trades.
- Section (4) of Schedule A, “Information for Clearing Members,” has been amended to delete specific information sharing obligations of OCC to its Clearing Members and to state that the information provided to Clearing Members will be in accordance with OCC’s By-Laws and Rules.
- Section (I)(A) of Schedule B has been amended to delete specific references to information that OCC will provide to Clearing Members on a daily basis and instead adds a provision that OCC will provide NFX with



its “Data Distribution Service” information for regulatory and financial purposes.

- Section (I)(B) of Schedule B has been amended to delete certain information sharing provisions and to state that the information sharing obligations OCC continues to have may be satisfied by posting the required information on OCC’s public website which streamlines the information sharing process.

## **Conclusion**

The Clearing Agreement has remained substantially similar to the Previous Agreement but has been amended in certain respects as described above. Generally, the amendments will provide OCC more discretion in which products it manages based upon its risk management framework, remove unnecessary obligations for each party, and make the Clearing Agreement more precise and reflective of current practices. The Clearing Agreement also allows OCC to continue to provide clearance and settlement purposes while fulfilling its obligations as a self-regulating organization. As such, as stated above, OCC is proposing to provide notice regarding the Clearing Agreement so that OCC may begin providing clearing and settlement services for NFX in the second quarter of 2015.

### **2. Statutory Basis**

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (“Act”).<sup>10</sup> By entering into the Clearing Agreement, OCC will help ensure that derivatives contracts traded on

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

NFX will be promptly and accurately cleared pursuant to OCC's prudent risk management framework. By bringing derivatives contracts traded on NFX within the scope of OCC's clearance and settlement processes, OCC believes the proposed rule change contributes to the protection of investors and the public interest. By ensuring that the derivatives contracts traded on NFX are prudently risk managed under OCC's risk management framework, the proposed rule change also helps ensure the safeguarding of securities and funds in the custody and control of OCC. Finally, the proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

(B) Clearing Agency's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose a burden on competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change 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 such 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-2015-03 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-OCC-2015-03. 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 Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will 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\\_15\\_03.pdf](http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_15_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-2015-03 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>11</sup>

Brent J.Fields  
Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).