

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95364; File No. SR-OCC-2022-009)

July 26, 2022

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change by The Options Clearing Corporation Concerning One Multiplier Options.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 18, 2022, 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. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

This proposed rule change would amend provisions of OCC Rules to accommodate the issuance, clearance and settlement of index options and flexibly structured index options with an index multiplier of one (collectively “One Multiplier Options”). The proposed changes to OCC’s Rules are contained in Exhibit 5 to filing number SR-OCC-2022-009. Material proposed to be added to OCC’s Rules as currently in effect is marked by underlining, and material proposed to be deleted is marked with strikethrough text. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.³

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ OCC’s By-Laws and Rules can be found on OCC’s public website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

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 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

The Cboe Exchange ("Cboe") received approval from the Commission to list One Multiplier Options as a variation of currently-traded index and index flex options.⁴ One Multiplier Options will be similar to currently traded index and index flex options except that the multiplier for such options will be one rather than 100. With the proliferation of options with multipliers less than 100, OCC is proposing to modify its Rules to explicitly allow for a corresponding reduction in the automatic exercise threshold used for expiration processing for these products.

OCC Rule 1804 provides expiration procedures for cash-settled options. Rule 1804(b) establishes that expiring index options with standard expiration dates will be automatically exercised on an option's expiration date if it is in-the-money by \$1.00 or more per contract unless a Clearing Member instructs that any such option contract should not be exercised. Options are exercised under this section as an operational

⁴ See Securities Exchange Act Release No. 34-91528 (April 9, 2021), 86 FR 19933 (April 15, 2021) (SR-CBOE-2020-117), and Securities Exchange Act Release No. 34-993122 [sic] (September 24, 2021), 86 FR 54269 (September 30, 2021) (SR-CBOE-2021-041).

convenience for Clearing Members to automatically exercise an option that is in-the-money by \$1.00 or more, but Clearing Members have the ability to prevent the exercise of an in-the-money option that would otherwise be deemed exercised by submitting contrary exercise instructions. OCC proposes to make Rule 1804(b) applicable to One Multiplier Options that are not flexibly structured index options. Rule 1804(c) addresses expiration processing for expiring OTC index option contracts, flexibly structured index option contracts, quarterly index option contracts, monthly index option contracts, weekly index option contracts, and short term index options, and these products will be subject to automatic exercise on an option's expiration date if the option is in-the-money by the threshold amount specified in the rule.⁵ By product design, the index product types covered by Rule 1804(c) are automatically exercised if expiring option contracts meets the exercise threshold established therein, and Clearing Members do not have the ability to submit instructions to prevent the exercise of an option that is in-the-money by the exercise threshold amount. OCC proposes to make Rule 1804(c) applicable to flexibly-structured One Multiplier Options.

With the exception of OTC index options, Rule 1804(b) and (c) set \$1.00 per contract as the threshold amount to determine if an expiring index option contract will be deemed exercised immediately prior to the expiration time of the index option, meaning such options will be exercised if the Exercise Settlement Amount of such option is \$1.00 or more. As defined in Article XVII Section 1 of the OCC By-Laws, the Exercise Settlement Amount is the difference between the aggregate exercise price and the

⁵ Currently, Rule 1804(c) establishes a \$0.01 per contract automatic exercise amount for OTC index options and a \$1.00 per contract automatic exercise amount for all other index option types addressed in Rule 1804(c).

aggregate index value on the day of exercise. The \$1.00 amount provided in Rule 1804(b) and (c) serves as a threshold amount to determine which option positions will be automatically exercised. In other words, index option positions, other than OTC index option positions which have an exercise threshold amount of \$0.01 per contract, will be deemed automatically exercised if the option is in-the-money by \$1.00 or more per contract on an option's expiration date.

One Multiplier Options are 1/100th the size of most index option or index flex option on the same underlying index. Whereas the standard option has a multiplier of 100, One Multiplier Options will have a multiplier of one, meaning that the exercise settlement amount for One Multiplier Options will be determined as the difference between the strike price (multiplied by one) and the index value (multiplied by one). Due to the decrease in product size as the result of the smaller multiplier, Cboe has requested a proportionate reduction to the exercise threshold amount as established in Rule 1804(b) and (c).⁶ Consequently, OCC proposes to amend Rule 1804(b) and (c) to establish an exercise threshold that is 1/100th the size of a standard option, or \$0.01 per contract for the One Multiplier Options.

To achieve this outcome, OCC proposes to amend Rule 1804 to state that any

⁶ Pursuant to Rule 1804, OCC may change the exercise threshold amounts by providing Clearing Members with notice of the new threshold amount not less than 30 days prior to the effective date of the new threshold amount. OCC provided such notice to Clearing Members by posting OCC Information Memo #50046 on the OCC website on February 11, 2022, stating that index options with a multiplier less than 100 will have an exercise threshold of \$0.01 per contract. Cboe launched standard One Multiplier Options on March 14, 2022 and OCC applied the \$0.01 exercise threshold to the product at that time. Given the proliferation of options with multipliers less than 100, OCC is proposing this change to its Rules to explicitly state an exercise threshold that should apply to each product with this characteristic.

index option with a multiplier of one will have an exercise threshold of \$0.01 per contract. The threshold amount for all other options included in Rule 1804 will remain unchanged. To clearly differentiate between the exercise amounts for options with a multiplier of one from other options, OCC proposes to modify Rule 1804(b) and (c) to include separate subsections in Rule 1804(b)(1) and (2) and Rule 1804(c)(1), (2) and (3).

As noted previously, Rule 1804(b) and (c) allow OCC to establish a different threshold amount by providing 30 days' prior notice to Index Clearing Members. The proposed rule change will subsequently align the exercise threshold in the rule with the exercise threshold for One Multiplier Options established by previously providing the required 30 days' advance notice in the form of an Information Memo.

(2) Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A of the Act⁷ and the rules thereunder applicable to OCC. Section 17A(b)(3)(F) of the Act⁸ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions. As described in greater detail above, the proposed rule aligns OCC's Rules with respect to expiration processing with the specifications of One Multiplier Options as established by Cboe. Accordingly, OCC believes the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions in accordance with Section 17A(b)(3)(F) of the Act.

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

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

Section 17A(b)(3)(I) of the Act⁹ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would apply the automatic exercise threshold of \$0.01 uniformly to any index product with a multiplier less than 100 traded on any exchange. Furthermore, the automatic exercise threshold is used in expiration processing solely for the operational convenience of OCC Clearing Members and thus does not impact or impose any 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. The proposal shall not take effect until all regulatory actions required with respect to the proposal are

⁹ 15 U.S.C. 78q-1(b)(3)(I).

completed.

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. Please include File Number SR-OCC-2022-009 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2022-009. 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2022-009 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

J. Matthew DeLesDernier,
Deputy Secretary.

¹⁰ 17 CFR 200.30-3(a)(12).