

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68002; File No. AN-OCC-2012-03)

October 5, 2012

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Advance Notice and Notice of No Objection to Replace The Options Clearing Corporation's Credit Facility

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act")<sup>1</sup> and Rule 19b-4(n)(1)(i),<sup>2</sup> notice is hereby given that on September 26, 2012, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") an advance notice 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 change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance for the Advance Notice

In connection with a change to its operations (the "Change"), OCC proposes to replace its credit facility designed to be used to meet obligations of OCC arising out of the default or suspension of a clearing member of OCC or the insolvency of any bank or clearing organization doing business with OCC.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed change and discussed any comments it received on the proposed change. The text of these statements may be examined at the places specified in Item IV

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

<sup>2</sup> 17 CFR 240.19b-4(n)(i).

below. OCC has prepared a summary, set forth in section (A) below, of the most significant aspects of such statements.<sup>3</sup>

Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)

***Description of Change***

The Change involves the replacement of a credit facility that OCC maintains for the purposes of meeting obligations arising out of the default or suspension of a clearing member or the failure of a bank or securities or commodities clearing organization to perform its obligations due to its bankruptcy, insolvency, receivership or suspension of operations. OCC’s existing credit facility (the “Existing Facility”) was implemented on October 13, 2011 through the execution of a Credit Agreement among OCC, JPMorgan Chase Bank, N.A. (“JPMorgan”), as administrative agent, and the lenders that are parties to the agreement from time to time, which provides short-term secured borrowings in an aggregate principal amount of up to \$2 billion.

The Existing Facility is set to expire on October 11, 2012, and OCC is therefore currently negotiating the terms of a new credit facility (the “New Facility”) on substantially similar terms as the Existing Facility. On September 4, 2012, OCC received a commitment letter with regard to the New Facility from: JPMorgan, the administrative agent, euro administrative agent and collateral agent, and a lender, for the New Facility; JPMorgan Securities LLC (“JPMorgan Securities”), the joint lead arranger for the New Facility; Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), the joint lead arranger for the New Facility; and Bank of America, N.A. (“BANA”), the syndication agent and a lender for the New Facility. The terms and conditions applicable to the New Facility are

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

set forth in the commitment letter and a Summary of Terms and Conditions attached as an exhibit to the commitment letter. One of the conditions to the availability of the New Facility is the execution and delivery of a credit agreement and pledge agreement between OCC, JPMorgan, JPMorgan Securities, MLPF&S, BANA and the various lenders under the New Facility, which OCC anticipates will occur on or before October 11, 2012. Another condition is the successful syndication of the facility to a group of lenders who will in the aggregate provide commitments of at least \$2 billion.

Under the New Facility, a syndicate of banks, financial institutions and other entities will make loans to OCC on request. The New Facility includes a tranche that may be drawn in dollars or euros and a dollar-only tranche. The aggregate amount of loans available under the facility, subject to the value of eligible collateral, is up to \$2 billion. The dollar equivalent of the total loans denominated in euros under the euro/dollar tranche of the New Facility may not exceed \$100 million. During the term of the New Facility, the amount of the New Facility may be increased to up to \$3 billion if OCC so requests and if sufficient commitments from lenders are received and accepted.

The New Facility is available on a revolving basis for a 364-day term. OCC may request a loan under the New Facility on any business day by providing a notice to JPMorgan, as administrative agent, which will then notify the lenders, who will be required to fund their *pro rata* share of any requested loan within a specified period of time after receiving notice from JPMorgan. The funding deadline is designed to permit OCC to obtain funds on the date of the request, subject to a cutoff time after which funding will occur on the next business day. Each loan issued pursuant to the New Facility matures and is payable 30 days after the borrowing date. Proceeds of these loans must be used to meet

the obligations of OCC arising out of the default or suspension of a clearing member or the failure of a bank or securities or commodities clearing organization to perform its obligations to OCC. In order to obtain a loan under the facility, OCC must pledge as collateral cash or government securities that are margin deposits of suspended members or that are held in OCC's clearing fund, and that in either case are not otherwise subject to liens, security interests or other encumbrances. OCC has the authority to pledge these assets in connection with borrowings under Section 5(e) of Article VIII of its By-Laws and Rule 1104(b).

The amount available under the New Facility at any given point in time is equal to the lesser of (i) \$2 billion, or the increased size of the facility, if applicable, and (ii) the sum of (A) 90% of the value of OCC's clearing fund that is not subject to liens or encumbrances granted by OCC other than in connection with the New Facility and (B) 90% of the value of unencumbered margin deposits of suspended clearing members that are not subject to liens or encumbrances granted by OCC other than in connection with the New Facility. If the aggregate principal amount of loans under the New Facility exceeds the amount available under this formula, OCC must prepay loans, obtain the release of liens and/or require additional margin and/or clearing fund deposits to cure the deficiency. A condition to the making of any loan under the New Facility is that, after giving effect to the loan, the sum of 100% of the dollar-denominated loans and 105% of the euro-denominated loans under the New Facility may not exceed the "borrowing base." The borrowing base is determined by adding the value of all collateral pledged in connection with all loans under the New Facility, after applying "haircuts" to government securities based on their remaining maturity. If the borrowing base is less than the sum of 100% of the dollar-

denominated loans and 105% of the euro-denominated loans under the New Facility, OCC must repay loans or pledge additional collateral to cure the deficiency. There are additional customary conditions to the making of any loan under the New Facility, including that OCC is not in default. Importantly, however, the absence of a material adverse change affecting OCC is not a condition to the making of a loan. Loans may be prepaid at any time without penalty.

Events of default by OCC under the New Facility include, but are not limited to, non-payment of principal, interest, fees or other amounts when due; non-compliance with a daily borrowing base when loans are outstanding; material inaccuracy of representations and warranties; bankruptcy events; fundamental changes; and failure to maintain a first priority perfected security interest in collateral. In the event of a default, the interest rate applicable to outstanding loans would increase by 2.00%. The New Facility also includes customary defaulting lender provisions, including provisions that restrict the defaulting lender's voting rights, permit set-offs of payments against the defaulting lender and suspend the defaulting lender's right to receive commitment fees.

The New Facility involves a variety of customary fees payable by OCC, including: (1) a one-time arrangement fee payable to JPMorgan Securities and MLPF&S; (2) a one-time administrative and collateral agent fee payable to JPMorgan if the New Facility closes; (3) a one-time euro administrative fee payable to JPMorgan if the New Facility closes; (4) upfront commitment fees payable to the lenders based on the amount of their commitments; and (5) an ongoing quarterly commitment fee based on the unused amount of the New Facility.

### ***Anticipated Effect on and Management of Risk***

Overall, the New Facility reduces the risks to OCC, its clearing members and the options market in general because it will allow OCC to obtain short-term funds to address liquidity demands arising in connection with the default or suspension of clearing members or the insolvency of a bank or another securities or commodities clearing organization. The existence of the New Facility could enable OCC to minimize losses in the event such a default, suspension or insolvency, by allowing it to obtain funds on extremely short notice to ensure that the clearance of transactions in options and other contracts occurs without interruption. By drawing on the facility OCC would be able to avoid liquidating margin or clearing fund assets in what would likely be volatile market conditions, which would preserve funds available to cover any losses resulting from the failure of a clearing member, bank or another clearing organization. OCC's entering into the New Facility will not increase the risks associated with its clearing function because it is entered into on substantially the same terms as the Existing Facility.

While the New Facility will, in general, reduce the risks associated with OCC's clearing function, like any lending arrangement the New Facility involves risks. One of the primary risks to OCC and its clearing function associated with the New Facility is the risk that a lender fails to fund when OCC requests a loan, because of the lender's insolvency or otherwise. This risk is mitigated through the use of a syndicated facility, which does not depend on the creditworthiness of a small number of lenders. In addition, the New Facility has lender default provisions designed to discourage lenders from failing to fund loans. Moreover, OCC has the ability under the New Facility to replace a defaulting lender. Finally, in the event a particular lender fails to fund its portion of the requested loan, the

New Facility includes provisions pursuant to which OCC may request “covering” loans from non-defaulting lenders to make up the shortfall, or OCC may simply make a second borrowing request for the shortfall amount that lenders are committed to make, subject to OCC’s satisfying the borrowing conditions for the second loan, although in either case the total amount available for borrowing under the New Facility would be reduced by the unfunded commitment of the defaulting lender. The failure by one or more lenders to fund the first loan does not relieve the lenders of their commitment to fund the second loan.

A second risk associated with the New Facility is the risk that OCC is unable to repay a loan within 30 days, which would allow the lenders to seize the pledged collateral and liquidate it, potentially at depressed prices that would result in losses to OCC. OCC believes that this risk is at a manageable level, because 30 days should be an adequate period of time to allow OCC to generate funds to repay the loans under the New Facility, such as by liquidating clearing fund assets other than those pledged to secure the loans. As provided in Section 5(e) of Article VIII of its By-Laws, if the loans have not been repaid within 30 days, the amount of clearing fund assets used to secure the loans will be considered to be an actual loss to the clearing fund, which will be allocated in accordance with Section 5 of Article VIII, and the proceeds of such allocation can be used to repay the loans.

### III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the

Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission or the Board of Governors of the Federal Reserve System providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed change is consistent with the Exchange 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 AN-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, N.E., Washington, DC 20549-1090.

All submissions should refer to File Number AN-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 change that are filed with the Commission, and all written communications relating to the proposed 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, DC 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:

([http://www.optionsclearing.com/components/docs/legal/rules\\_and\\_bylaws/an\\_occ\\_12\\_03.pdf](http://www.optionsclearing.com/components/docs/legal/rules_and_bylaws/an_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 AN-OCC-2012-03 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Commission's Findings and Notice of No Objection

Section 806(e)(1)(G) of the Clearing Supervision Act provides that a designated financial market utility may implement a change if it has not received an objection by the Commission within 60 days of an advanced notice.<sup>4</sup> Section 806(e) of the Clearing Supervision Act allows the Commission to act prior to the 60th day.<sup>5</sup> If the Commission chooses to not object prior to the 60th day, it must notify the designated financial market utility in writing that it does not object and authorize implementation of the change on an earlier date.<sup>6</sup> If the Commission chooses to object prior to the 60th day, it must similarly notify the designated financial market utility.<sup>7</sup>

In its filing with the Commission, OCC requested that the Commission notify OCC that it has no objection to the Change no later than October 9, 2012, which is two days prior to the October 11, 2012 effective date of the New Facility. OCC requested Commission action two days in advance of the effective date to ensure that there is no

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<sup>4</sup> 12 U.S.C. 5465(e)(1)(G).

<sup>5</sup> 12 U.S.C. 5465(e).

<sup>6</sup> 12. U.S.C. 5465(e)(1)(I).

<sup>7</sup> 12. U.S.C. 5465(e)(1)(E).

period of time that OCC operates without a credit facility, given the importance of the borrowing capacity in connection with OCC's risk management.

For the reasons set forth above, the Commission does not object to the proposed change.

VI. Conclusion

Pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act, the Commission does not object to the proposed change and authorizes OCC to implement the change (AN-OCC-2012-03) as of the date of this notice.<sup>8</sup>

By the Commission.

Kevin M. O'Neill  
Deputy Secretary

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<sup>8</sup> 12 U.S.C. 5465(e)(1)(I).