

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54935; File No. SR-OCC-2006-10)

December 13, 2006

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Accelerated Approval of a Proposed Rule Change Relating to Cash-Settled Foreign Currency Options

I. Introduction

On June 8, 2006, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2006-10 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> On October 26, 2006, OCC amended the proposed rule change. Notice of the proposal was published in the Federal Register on November 17, 2006.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

The proposed rule change will enable OCC to accommodate a request from the Philadelphia Stock Exchange, Inc. (“Phlx”) that OCC clear and settle cash-settled foreign currency options (“Cash-Settled FCOs”). While OCC’s By-Laws and Rules currently provide for the clearance and settlement of Cash-Settled FCOs, changes to OCC’s By-Laws are needed in connection with the Cash-Settled FCOs that are to be traded by Phlx.<sup>3</sup>

The first change is to reflect the different expiration date of the Cash-Settled FCOs as compared with the expiration date provided for in OCC’s By-Laws. The definition of

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

<sup>2</sup> Securities Exchange Act Release No. 54721, (November 8, 2006), 71 FR 67004.

<sup>3</sup> For a description of the Phlx proposed rule change, see Securities Exchange Act Release No. 54652 (October 26, 2006) 71 FR 64597 (November 2, 2006) [File No. SR-Phlx-2006-34]. Currently, there are no cash-settled FCOs traded at any options exchange.

“expiration date” in Article XXII, Section 1 of OCC’s By-Laws provides that Cash-Settled FCOs generally expire on the Monday specified by the relevant exchange at or before trading begins. To accommodate the Cash-Settled FCOs proposed to be traded by Phlx, the definition will be amended to provide for an expiration date on the Saturday following the third Friday of the expiration month, which is the same as the expiration date for equity and index options. OCC is also providing for expirations on such other dates as an exchange may determine, which is consistent with the definition of “expiration date” applicable to index options. OCC is also amending Article VI, Section 22 of its By-Laws to make clear that Cash-Settled FCOs will not clear through OCC’s International Clearing System.<sup>4</sup>

OCC amended the proposed rule change on October 26, 2006, to amend Article XXII, Section 4 of OCC’s By-Laws to conform the provisions relating to unavailability or inaccuracy of the spot price for Cash-Settled FCOs to the comparable provisions of Article XVII of OCC’s By-Laws relating to the unavailability or inaccuracy of the current index value or other value or price used to determine the exercise settlement amount for index options. The primary conforming changes are the addition of procedures under which the exercise settlement amount will be established by an adjustment panel in the event of the unavailability or inaccuracy of the spot price and a modification of normal expiration date exercise procedures in situations in which the adjustment panel delays the fixing of the exercise settlement amount beyond the last trading day for the affected series.

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<sup>4</sup> Interpretation .02 of Article VI, Section 22 of OCC’s By-Laws currently provides, “All classes of foreign currency options and cross-rate foreign currency options are cleared through ICS.”

The amendment also modified Rule 2302 of OCC's Rules in connection with a change in the expiration date exercise procedures for Cash-Settled FCOs. As originally filed, the rules for Cash-Settled FCOs provided for true automatic exercise without the opportunity for clearing members to give non-exercise instructions. Phlx subsequently informed OCC that Cash-Settled FCOs should be subject to the same "exercise-by-exception" procedures that apply to many other OCC-issued options. Under the "exercise-by-exception" procedures, a Cash-Settled FCO will be deemed to be exercised at expiration if the exercise settlement value is at least \$1.00 per contract unless the clearing member instructs OCC not to exercise it. OCC is also adding an interpretation to Rule 2302 to note that the normal expiration date exercise procedures do not apply in circumstances in which the fixing of the exercise settlement amount is delayed beyond the last trading day before expiration of cash-settled foreign currency options.

### III. Discussion

Section 17A(b)(3)(F) of the Act 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.<sup>5</sup> The purpose of the proposed rule change is to amend OCC's By-Laws and Rules so that OCC may clear and settle the new Cash-Settled FCO product proposed to be listed and traded on Phlx. Accordingly, the proposed rule change should promote the prompt and accurate clearance and settlement of securities transactions.

OCC has requested that the Commission approve the proposed rule prior to the thirtieth day after publication of the notice of the amended filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

because such approval will allow OCC to give its members sufficient notice of its clearance and settlement of Cash-Settled FCOs before trading begins.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.<sup>6</sup>

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2006-10) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>6</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

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