

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55124; File No. SR-OCC-2006-20)

January 18, 2007

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Accelerate the Expiration Date of American-Style Equity Options That Have Been Adjusted to Call for Cash-Only Delivery

I. Introduction

On October 26, 2006, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2006-20 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> Notice of the proposal was published in the Federal Register on November 29, 2006.<sup>2</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

In a cash-out merger, the common equity of the acquired company (“Security”) is converted into a right to receive a fixed amount of cash. On the day after the announced consummation date for the merger, the stock exchanges on which the Security is traded suspend all trading in the Security. Concurrently, the options exchanges discontinue trading in options overlying the Security. If a customer does not liquidate an out-of-the money option position before the exchange halts trading, its broker must carry the position until it expires. With increasing volume and the proliferation of options with long expiration dates, clearing members’ cost and operational overhead of carrying these positions is significant.

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

<sup>2</sup> Securities Exchange Act Release No. 54793 (November 20, 2006), 71 FR 69172.

In an effort to reduce these costs, OCC seeks to modify its rules to accelerate the expiration date of American-style equity options that are adjusted to call for a cash deliverable to the earliest practicable regular expiration date.<sup>3</sup> The exercise by exception price threshold for the adjusted contracts will be \$.01 per share of the amount of the cash deliverable.<sup>4</sup>

OCC will implement the foregoing rule changes on January 1, 2008, to allow clearing members and customers sufficient time to prepare for the change of methodology. OCC will not implement the rule changes until definitive copies of an appropriate revision of or supplement to the options disclosure document, Characteristics and Risks of Standardized Options, are available for distribution.

### III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.<sup>5</sup> Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>6</sup> The Commission finds that OCC's rule change is consistent with these requirements because by

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<sup>3</sup> OCC rules currently contain a provision for acceleration of the expiration date of European-style equity options that have been converted to a cash deliverable.

<sup>4</sup> Every option contract that has an exercise price below (in the case of a call) or above (in the case of a put) the amount of the cash deliverable by \$.01 or more will be deemed to have been exercised immediately prior to the accelerated expiration time unless the clearing member directs otherwise. OCC also is making a conforming change to Rule 1106.

<sup>5</sup> 15 U.S.C. 78s(b).

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

accelerating the expiration date of American-style equity options that are adjusted to call for a cash deliverable OCC makes procedures for clearance and settlement of these options more efficient and thereby reduces unnecessary costs on investors and persons facilitating transactions by and acting on behalf of investors. As such, the proposed rule change should better enable OCC to promote the prompt and accurate clearance and settlement of securities transactions.<sup>7</sup>

#### 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.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (File No. SR-OCC-2006-20) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>7</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>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).