

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55349; File No. SR-OCC-2006-08)

February 26, 2007

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Revise Stock Futures Adjustment Methodology

I. Introduction

On May 19, 2006, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2006-08 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ Notice of the proposal was published in the Federal Register on December 14, 2006.² The Commission received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

OCC is seeking to amend Article XII (Futures and Futures Options), Section 3 (Adjustments to Futures and Futures Options) of OCC’s By-Laws to conform to the changes adopted in rule change SR-OCC-2006-01, which amended Article VI (Clearance of Exchange Transactions), Section 11A (Adjustments for Stock Option Contracts).³

On January 12, 2006, OCC filed with the Commission proposed rule change SR-OCC-2006-01. Pursuant to SR-OCC-2006-01, OCC proposed, among other things, to amend its

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 54898 (December 8, 2006), 71 FR 75287.

³ Securities Exchange Act Release Nos. 55258 (February 8, 2007), 72 FR 7701 [File No. SR-OCC-2006-01] (order approving proposed rule change to revise stock options adjustment methodology) and 53400 (March 2, 2006), 71 FR 12226 [File No. SR-OCC-2006-01] (notice of filing of proposed rule change to revise stock options adjustment methodology).

adjustment rules in Article VI, Section 11A for stock option contracts with respect to stock dividends, stock distributions, and stock splits. Subject to the Commission approving proposed rule change SR-OCC-2006-01, OCC proposed to amend Article XII, Section 3 to ensure stock futures contracts can be adjusted in a manner consistent with adjustments made to stock option contracts on the same underlying security.

As described in rule change SR-OCC-2006-01, OCC amended certain of its adjustment rules with respect to stock option contracts to eliminate the need to round strike prices and/or units of trading in the event of certain stock dividends, stock distributions, and stock splits.⁴ The adjustment rules for stock futures as currently provided in Article XII, Section 3 parallel the adjustment rules for stock options provided in Article VI, Section 11A. Uniformity of the two provisions would ensure that stock futures contracts can be adjusted in a manner consistent with adjustments made to stock option contracts on the same underlying security. The changes to Article XII, Section 3 that are the subject of this proposed rule change are made solely to track the changes made to Article VI, Section 11A and are intended to ensure that adjustments to stock options and to stock futures made for stock dividends, stock distributions, and stock splits will remain consistent with respect to an underlying security.

As noted above, the central purpose of the rule change in SR-OCC-2006-01 was to eliminate inequities which resulted from certain rounding practices previously required by OCC's By-Laws because stock option strike prices are quoted in and are therefore rounded to the nearest one-eighth. Stock futures do not have the same inequities because they are quoted in

⁴ The notice and order for SR-OCC-2006-01 describes OCC's proposed changes to and the rationale for the rule change to its adjustment rules for stock options.

decimals. Nevertheless, in order to ensure adjustments for stock options and for stock futures remain consistent, OCC proposes to revise the adjustment rules with respect to stock futures to match the revised adjustment rules with respect to stock options for stock dividends, stock distributions, and stock splits.

OCC will implement the proposed rule change described herein concurrently with the implementation of the changes approved in SR-OCC-2006-01.

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. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed, in general, to protect investors and the public interest.⁵ The Commission believes that OCC's rule change is consistent with this Section because it is intended solely to keep the adjustment rules for stock futures with respect to stock dividends, stock distributions, and stock splits consistent with the adjustment rules for stock options with respect to stock dividends, stock distributions, and stock splits and thus should protect investors and the public interest.

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. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2006-08) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Florence E. Harmon
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).

