

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66715; File No. SR-OCC-2012-04)

April 2, 2012

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Stock Loan Buy-In and Sell-Out Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on March 22, 2012, 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. Self-Regulatory Organization’s Statement of Terms of Substance of the Proposed Rule Change

The proposed rule change would make procedural changes to certain stock loan buy-in and sell-out rules.

II. Self-Regulatory Organization’s Statement of 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.

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

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of Purpose of, and Statutory Basis for, the Proposed Rule Change

As described below, OCC is proposing three procedural changes to certain rules relating to the Market Loan Program<sup>3</sup> and the Stock Loan/Hedge Program.<sup>4</sup>

First, OCC proposes to amend the buy-in and sell-out processes under the Market Loan Program. Under existing Rules, buy-in and sell-out transactions under the Market Loan Program would be executed by the relevant Loan Market using an independent broker. However, Clearing Members participating in the Market Loan Program have requested that the execution of such buy-in or sell-out transactions be left to the discretion of Lending Clearing Member or Borrowing Clearing Member, as applicable. OCC understands that Automated Equity Finance Markets, Inc. ("AQF"), the operator of the Loan Market supported by the Market Loan Program, supports the requested change and believes that allowing participants in the Market Loan Program to manage the buy-in and sell-out processes in the manner that they are accustomed to will foster the development of its marketplace. To accommodate such request, OCC proposes to amend Rule 2209A and Rule 2211A to update the buy-in and sell-out processes described therein and to redefine the respective rights, obligations, and responsibilities of OCC, Clearing Members and the relevant Loan Market in connection therewith.

More specifically, under existing rules where the Borrowing Clearing Member fails to return the specified quantity of loaned stock (or where the Lending Clearing Member fails to pay the settlement price with respect to the specified quantity of loaned stock), the relevant Loan

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<sup>3</sup> The Market Loan Program, governed by Article XXIA of OCC's By-Laws and Chapter XXIIA of OCC's Rules, provides a framework that accommodates securities lending transactions executed through electronic trading systems ("Loan Markets").

<sup>4</sup> The Stock Loan/Hedge Program, governed by Article XXI of OCC's By-Laws and Chapter XXII of OCC's Rules, allows approved clearing members to register their privately negotiated securities lending transactions with OCC.

Market will instruct an independent broker to execute a buy-in (or sell-out) of the loaned stock, and OCC will determine in its sole discretion, as between OCC and the clearing members, whether the costs of the transaction are reasonable. Under the proposed rules, as is the more common practice in connection with securities lending, instead of an independent broker the Lending Clearing Member (or the Borrowing Clearing Member) would determine if and when to execute a buy-in (or sell-out) of the loaned stock. Because the Clearing Member would have sole discretion with respect to execution of the buy-in (or sell-out) transaction, such Clearing Member would be required to defend the timeliness of the transaction and the reasonableness of the costs if such matters were challenged. OCC would have no responsibility with respect to the resolution unless OCC had suspended the Clearing Member. In connection with the foregoing proposed changes, OCC and AQS would amend and restate the Agreement for Clearing and Settlement Services between the parties (“AQS Agreement”). A copy of the amended and restated AQS Agreement is attached to the proposed rule change.<sup>5</sup>

Second, OCC proposes to amend the Rules governing the Stock Loan/Hedge Program to add a sell-out process. Currently, Rule 2209, which governs regular termination of stock loans under the Stock Loan/Hedge Program, does not describe a sell-out process. Although a sell-out process is described in Rule 2211, the scope of its application is limited by the context of Rule 2211, which specifically governs the close-out of stock loan positions of suspended Clearing Members. Therefore, OCC proposes to amend Rule 2209 to add a sell-out process that would apply in the context of regular termination of stock loans and to amend Rule 2211 to update the

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<sup>5</sup> Attached to the proposed rule change as Exhibit 5A is a marked copy showing the changes between the original and amended and restated AQS Agreement. These supporting changes to the AQS Agreement principally are technical in nature. Technical changes also have been made to reflect the use of DTC’s Dividend Service to effect settlement of certain cash dividends. See Exchange Act Release No. 34-60881 (October 26, 2009), 74 F.R. 56253 (October 30, 2009) [SR-OCC-2009-16].

buy-in and sell-out processes described therein and to redefine the respective rights, obligations, and responsibilities of OCC and Clearing Members in connection therewith. Rule 2209 would also be amended to clarify when stock loans are terminated, including codifying a long standing process which has permitted Clearing Members to a stock loan to certify to OCC that they have terminated the stock loan and transferred the settlement price between themselves.

Third, OCC proposes to amend the Rules governing the Stock Loan/Hedge Program to add a cash settlement process. Under the Market Loan Program, if the Lending Clearing Member is unable to complete a buy-in, OCC has the discretion to fix a cash settlement value for the quantity of the loaned stock not returned to the Lending Clearing Member, thereby facilitating the termination of the relevant stock loan [see Rule 2209A(b)(3)]. However, currently OCC does not have the same option available under the Stock Loan/Hedge Program. Therefore, OCC proposes to amend Rule 2209 and Rule 2211, as appropriate, to include a cash settlement process identical to the process available under the Market Loan Program.

Finally, in addition to the procedural changes described above, OCC proposes to amend Rule 2202(b) to clarify that with respect to a stock loan that has been novated by OCC under the Stock Loan/Hedge Program, any terms of the original stock loan (other than terms that establish congruence) and any representations, warranties, and covenants made by the parties to the original stock loan with respect to such loan, to the extent that they do not conflict with OCC's By-Laws and Rules, shall remain in effect as between such parties. This change clarifies that, for example, the agreements of the parties to the original stock loan transaction with respect to dividend and rebate payments (which are not guaranteed by OCC in the Stock Loan/Hedge Program) are not affected by the provisions of OCC's By-Laws and Rules.

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The proposed changes to OCC's By-Laws and Rules are consistent with the purposes and

requirements of Section 17A of the Act, as amended, because they are designed to promote the prompt and accurate clearance and settlement of stock loans by permitting Clearing Members to manage the buy-in and sell-out processes in the manner that they are accustomed to and by providing OCC with the additional option of closing out stock loans through a cash settlement process, thereby fostering cooperation and coordination with persons engaged in the clearance and settlement of stock loans, and removing impediments to and perfecting the mechanism of a national system for the prompt and accurate clearance and settlement of stock loans. The proposed rule change is not inconsistent with any rules of OCC, including any rules proposed to be amended.

B. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments 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 the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### 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 may be submitted by using 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 No. SR-OCC-2012-04 on the subject line.
- Paper comments should be sent in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C., 20549-1090.

All submissions should refer to File Number SR-OCC-2012-04. 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 filings will also be available for inspection and copying at the principal office of OCC and on OCC's website at

[http://www.optionsclearing.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_12\\_04.pdf](http://www.optionsclearing.com/components/docs/legal/rules_and_bylaws/sr_occ_12_04.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 SR-OCC-2012-04 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.<sup>6</sup>

Elizabeth M. Murphy  
Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).