

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51350; File No. SR-OCC-2004-19)

March 9, 2005

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to Clearing Member Trade Assignment Processing

On November 1, 2004, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change (File No. SR-OCC-2004-19) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934.¹ Notice of the proposal was published in the Federal Register on February 7, 2005.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change will add new clearing member trade assignment (“CMTA”) processing requirements to OCC’s By-Laws and Rules. Specifically, OCC will modify Article I (“Definitions”) of its By-Laws and Rules 401 and 403 to require clearing members that are parties to a CMTA arrangement involving CMTA customers to register with OCC certain customer identifiers that the clearing members use to process the CMTA transactions. The new rules will provide that an exchange transaction executed on behalf of a CMTA customer that is to be transferred by CMTA processing for clearance and settlement will be identified by a special indicator called a Customer CMTA Indicator in the matching trade information submitted with respect to that transaction.³ For each transaction marked with the Customer CMTA Indicator,

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 51120 (Feb. 1, 2005), 70 FR 6486.

³ The same indicator will be used by all options exchanges. OCC made various system changes to process this indicator and other information to be supplied with

the matching trade information will also contain a “CMTA Customer Identifier,” which provides identification information about the CMTA customer on whose behalf a transaction was executed, and an “IB Identifier,” which provides identification information about the introducing broker that executed or arranged for the execution of such transaction.⁴

If a transaction is marked with the CMTA Indicator, OCC’s systems will verify against a database of registered identifiers that the CMTA Customer Identifier and the IB Identifier supplied as a part of the trade information match registered identifiers for purposes of the CMTA arrangement between the carrying clearing member and executing clearing member. This verification step will be in addition to the other verifications performed by OCC’s systems for CMTA processing. If a transaction is marked with a Customer CMTA Indicator but either the CMTA Customer Identifier or the IB Identifier is incomplete, inaccurate, or missing, OCC’s systems will treat the transaction as a failed CMTA and will cause the transaction to be cleared in the executing clearing member’s designated or default account in accordance with OCC Rule 403.

Under the terms of a model agreement, which was developed by a working group of clearing members, options exchanges, and OCC, the firms will identify each CMTA covered customer. Each clearing member will then assign identifiers to their CMTA customers and introducing brokers. One clearing member will then register the assigned identifiers with OCC. OCC’s systems will require the other clearing member to approve the identifiers before they are

respect to CMTA customers’ transactions. Matching trade information submitted by the options exchanges will need to include this information that requires changes to the exchanges’ systems.

⁴ If the “introducing broker” is also the “executing clearing member,” a separate IB Identifier will still be required.

submitted to OCC for registration. Identifiers will be effectively registered when they are accepted by OCC's systems, subject to OCC's right to reject an already registered identifier.⁵ OCC will retain the right to specify criteria applicable to the characters used to form identifiers for systemic reasons.

III. Discussion

Section 17A(b)(3)(F) of the Act⁶ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission finds that the proposed rule change is consistent with OCC's obligations under Section 17A(b)(3)(F) because including identifying information about the CMTA customer and introducing broker to a transaction will make CMTA processing more transparent and should increase the regulatory and legal certainties with respect thereto. Specifically, the amendment to CTMA processing should better enable OCC members to make sure that transactions are properly sent to their accounts for clearing.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁷ and the rules and regulations thereunder.

⁵ Carrying and executing clearing members will be responsible to update their respective registrations of CMTA Customer Identifiers and IB Identifiers including registering any changes or deletions with respect thereto.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2004-19) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹

J. Lynn Taylor
Assistant Secretary

¹ 17 CFR 200.30-3(a)(12).