SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69767; File No. SR-OCC-2013-802)

June 14, 2013

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of No Objection to Advance Notice Filing to Change the Expiration Date For Most Option Contracts to the Third Friday of the Expiration Month Instead of the Saturday Following the Third Friday

I. Introduction

On April 17, 2013, The Options Clearing Corporation ("OCC")[1] filed with the Securities and Exchange Commission ("Commission") advance notice SR-OCC-2013-802 pursuant to Section 806(e) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"),[2] entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Title VIII" or "Clearing Supervision Act").[3] The advance notice was published in the Federal Register on May 23, 2013.[4] The Commission received one comment letter to the Advance

1 OCC was designated as a systemically important financial market utility ("FMU") by the Financial Stability Oversight Council ("FSOC") on July 18, 2012. See FSOC 2012 Annual Report, Appendix A, http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf. Therefore, OCC is required to comply with Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

2 Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010).

3 OCC also filed the proposals contained in this advance notice as a proposed rule change, under Section 19(b)(1) of the Exchange Act and Rule 19b-4 thereunder, seeking Commission approval to permit OCC to change its rules to reflect the proposed changes in this advance notice. 15 U.S.C. 78s(b)(1); 17 CFR 240.19b-4; See Exchange Act Release No. 69480 (April 30, 2013) (SR-OCC-2013-04).

4 Securities Exchange Act Release No. 34-69603 (May 17, 2013), 78 FR 30944 (May 23, 2013) ("Notice of Filing of Advance Notice").

Notice, in which the commenter expressed support for the change.[5] This publication serves as a notice of no objection to the advance notice.

II. Description of Proposed Rule Change

Proposal

OCC filed this advance notice to change the expiration date for most option contracts ("Standard Expiration Contracts") to the third Friday of the specified expiration month ("Expiration Date"). Standard Expiration Contracts currently expire at the "expiration time" (11:59 pm Eastern Time) on the Saturday following the third Friday of the specified expiration month ("Expiration Date").[6]

The proposed change applies only to series of option contracts opened for trading after the effective date of this proposed rule change and having Expiration Dates later than February 1, 2015. Option contracts having non-standard expiration dates ("Non-standard Expiration Contracts") are unaffected by this proposed rule change.[7]

In order to provide a smooth transition to the Friday expiration, OCC intends to, beginning June 21, 2013, move the expiration exercise procedures to Friday for all Standard Expiration Contracts even though the contracts would continue to expire on Saturday.[8] After

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5 See Comment from John V. Bruzzese dated May 3, 2013 (stating that the change would be "beneficial for [the] option expiration process") (http://sec.gov/comments/sr-occ-2013-04/occ201304-1.htm).

6 See the definition of "expiration time" in Article I of OCC's By-Laws.

7 Examples of options with Non-standard Expiration Contracts include flex options and quarterly, monthly, and weekly options where the expiration exercise processing for such options presently occurs on a weekday.

8 For contracts having a Saturday expiration date, exercise requests received after Friday expiration processing is complete but before the Saturday contract expiration time will continue

February 1, 2015, virtually all Standard Expiration Contracts will expire on Friday. According to OCC, the only Standard Expiration Contracts that will expire on a Saturday after February 1, 2015 are certain options that were listed prior to the effectiveness of this rule change,[9] and a limited number of options that may be listed prior to necessary systems changes of the options exchanges, which are expected to be completed in August 2013.[10] After the transition period and the expiration of all existing Saturday-expiring options, expiration processing should be a single operational process and should run on Friday night for all Standard Expiration Contracts.

In connection with moving from Saturday to Friday night processing and expiration, OCC reviewed other aspects of its business to confirm that there would be no unintended consequences, and concluded that there would be none. For example, OCC believes the proposed changes do not affect OCC's liquidity forecasting procedures, nor do they impact OCC's liquidity needs, since OCC's liquidity forecasts and liquidity needs are driven by settlement obligations, which occur on the same day (T+3) irrespective of the move to Friday night processing and expiration dates. According to OCC, industry groups, clearing members,

to be processed so long as they are submitted in accordance with OCC's procedures governing such requests.

[9] According to OCC, certain option contracts have already been listed on exchanges with expiration dates as distant as December 2016. Such options have Saturday expiration dates and OCC cannot change the terms of existing option contracts. In addition, clearing members have expressed a clear preference not to have open interest in any particular month with different expiration dates. Therefore, OCC will designate certain expiration dates as "grandfathered," and any option contract that is listed, or may be listed in the future, that expires on a grandfathered date will have a Saturday expiration date even if such expiration date is after February 1, 2015. After OCC designates an expiration date as grandfathered, the exchanges have agreed not to permit the listing of, and OCC will not accept for clearance, any newly listed standard expiration option contract with a Friday expiration in the applicable month.

[10] The exchanges have agreed that once these systems changes are made they will not open for trading any new series of option contracts with Saturday expiration dates falling after February 1, 2015.

and options exchanges have been active participants in planning for the transition to the Friday expiration. OCC has obtained assurances from all options industry participants that they will be ready to move to Friday night expiration processing by June 2013.

Rule Changes

In order to implement the change to Friday expiration processing and eventual transition to Friday expiration for all Standard Expiration Contracts, OCC is amending the definition of "expiration date" in Article I and certain other articles of the By-Laws. As amended, the applicability of the definition is no longer limited to stock options, and the definition of "expiration date" in certain articles of the By-Laws therefore is deleted in reliance on the Article I definition. OCC is also amending Rule 805, and all rules supplementing or replacing Rule 805, to allow for Friday expiration processing during the transition to Friday expiration. OCC is also amending section 18 of Article VI of the By-Laws to align procedures for delays in producing Expiration Exercise Reports and submission of exercise instructions with the amended expiration exercise procedures in Rule 805. OCC is amending Rule 801 to modify the prohibition against exercising an American-style option contract on the business day prior to its expiration date, because this prohibition is necessary only for options expiring on a Saturday, and to remove clearing members' ability to revoke or modify exercise notices in order to accommodate the compressed Friday expiration processing expiration schedule.

Finally, OCC is amending Rules 801 and 805 to allow certain determinations to be made by high-level officers of OCC, rather than the Board of Directors, in order to provide OCC with greater operational flexibility in processing exercise requests received after Friday expiration processing is complete but before the Saturday contract expiration time, and to replace various references to the expiration date of options with reference to the procedures of Rule 805.

Under the proposed change, OCC is preserving the ability of the options exchanges to designate (or, in the case of flexibly structured options, permit clearing members to designate) non-standard expiration dates for options, or classes or series of options, so long as the designated expiration date is not a date OCC has specified as ineligible to be an expiration date.

III. Analysis of Advance Notice

Although Title VIII does not specify a standard of review for an Advance Notice, the Commission believes that the stated purpose of Title VIII is instructive.[11] The stated purpose of Title VIII is to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically-important financial market utilities ("FMU") and providing an enhanced role for the Federal Reserve Board in the supervision of risk management standards for systemically-important FMUs.[12]

Section 805(a)(2) of the Clearing Supervision Act[13] authorizes the Commission to prescribe risk management standards for the payment, clearing, and settlement activities of designated clearing entities and financial institutions engaged in designated activities for which it is the supervisory agency or the appropriate financial regulator. Section 805(b) of the Clearing Supervision Act[14] states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to:

- promote robust risk management;

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11 12 U.S.C. 5461(b).

12 Id.

13 12 U.S.C. 5464(a)(2).

14 12 U.S.C. 5464(b).

- promote safety and soundness;
- reduce systemic risks; and
- support the stability of the broader financial system.

The Commission adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act on October 22, 2012 ("Clearing Agency Standards").[15] The Clearing Agency Standards became effective on January 2, 2013 and require clearing agencies that perform central counterparty services to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.[16] As such, the Commission believes it is appropriate to review Advance Notices against these risk management standards that the Commission promulgated under Section 805(a) and the objectives and principles of these risk management standards as described in Section 805(b).

OCC's proposal to move the expiration date of Standard Expiration Contracts to the third Friday of the month, as described above, is designed to help mitigate operational risk that Saturday expiration imposes on OCC and its members. Consistent with Section 805(b) of the Clearing Supervision Act,[17] the Commission believes the proposed changes should promote safety and soundness of OCC's operations and reduce systemic risks by allowing OCC to

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15 Clearing Agency Standards, Securities Exchange Act Release No. 34-68080 (October 22, 2012), 77 FR 66219 (November 2, 2012).

16 The Clearing Agency Standards are substantially similar to the risk management standards established by the Federal Reserve Board governing the operations of designated FMUs that are not clearing entities and financial institutions engaged in designated activities for which the Commission or the Commodity Futures Trading Commission is the Supervisory Agency. See Financial Market Utilities, 77 FR 45907 (Aug. 2, 2012).

17 See 12 U.S.C. 5464(b).

streamline the expiration process among Standard Expiration Contracts and Non-Standard Expiration Contracts and quarterly options and weekly options. It should also allow OCC to align the expiration process for Standard Expiration Contracts with expiration processing schedules for European markets and should allow clearing members to run a single operational process for all US equity/index options regardless of where such options are exercised.

Furthermore, Rule 17Ad-22(d)(4), adopted as part of the Clearing Agency Standards, requires clearing agencies to "establish, implement, maintain, and enforce written policies and procedures reasonably designed to identify sources of operational risk and minimize them through the development of appropriate systems, controls, and procedures . . . ."[18] The Commission believes the proposed rule changes minimize operational risk through the development of a system to move the expiration date of Standard Expiration Contracts to the third Friday of the month so that exercise processing across Standard Expiration Contracts, Non-standard Expiration Contracts, quarterly options, and weekly options occur on the same day in a single operational process.

[18] 17 CFR 240.17Ad-22(d)(4).

IV. Conclusion

IT IS THEREFORE NOTICED, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,[19] that, the Commission DOES NOT OBJECT to the advance notice (File No. SR-OCC-2013-802) and that OCC be and hereby is AUTHORIZED to implement proposed rule change (File No. AN-OCC-2013-802) as of the date of this notice or the date of an "Order Approving Proposed Rule Change to Change the Expiration Date for Most Option Contracts to the Third Friday of the Expiration Month Instead of the Saturday Following the Third Friday" (File No. SR-OCC-2013-04), whichever is later.

By the Commission.

Kevin M. O'Neill
Deputy Secretary

[19] 12 U.S.C. 5465(e)(1)(I).