

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63293; File No. SR-OCC-2010-16)

November 9, 2010

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Relating to Weekly Options And Monthly Options

I. Introduction

On September 15, 2010, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission proposed rule change SR-OCC-2010-16 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change will accommodate options that expire on (a) any Friday of a calendar month other than the third Friday of a calendar month (“Weekly Options”) or (b) on the last trading day of a calendar month (“Monthly Options”). The proposed rule change was published for comment in the Federal Register on September 28, 2010.³ No comment letters were received on the proposal. This order approves the proposal.

II. Description of the Proposal

The purpose of the proposed rule change is to allow OCC to clear and to settle the Weekly Options and Monthly Options on broad-based indexes (“Weekly Index Options” and “Monthly Index Options,” respectively) that were recently approved by the Commission for listing on a pilot program basis on the Chicago Board Options Exchange, Incorporated, (“CBOE”).⁴ Series of Weekly Index Options will expire on a Friday of a calendar month other

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 62942 (Sept. 20, 2010), 75 FR 59779.

⁴ Securities Exchange Act Release No. 62911 (Sept. 14, 2010), 75 FR 57539 (Sept. 21, 2010).

than the third Friday, and Monthly Index Options will expire on the last trading day of a calendar month. If the last trading day of the month is a Friday, CBOE would opt to list Monthly Index Options over Weekly Index Options. Weekly Index Options and Monthly Index Options will be European-style, P.M.-settled contracts. These contracts will be subject to “automatic exercise procedures,” which means that these contracts will automatically be exercised at expiration if immediately prior to expiration the contract’s settlement amount equals or exceeds a predetermined amount without the opportunity for the clearing member to submit contrary exercise instructions.

Weekly Options and Monthly Options proposed by CBOE can be cleared and settled by OCC with relatively minor revisions to OCC’s current By-Laws and Rules to provide for options that expire on a monthly or weekly schedule.⁵ In particular, OCC will amend Article I, Section 1 of its By-Laws to include definitions covering Weekly and Monthly Options. Rule 801, which relates to the submission of exercise notices, will be changed to permit a Weekly or Monthly Option to be exercised on the business day before the expiration date and to include Weekly Index Options and Monthly Index Options in the listing of options series subject to automatic exercise. Interpretation and Policy .03 to Rule 805, which relates to expiration date exercise processing, will be amended to permit OCC to specify time frames for submitting exercise instructions and furnishing reports with respect to Weekly and Monthly Options on equity interests that are different than those time frames in effect for conventional options.⁶ A

⁵ OCC’s By-laws and Rules already accommodate equity and index options that expire on a day other than a Saturday following the third Friday of the month. For example, they accommodate quarterly options, which expire on the last business day of a calendar quarter, and short term options, which expire a week after their introduction for trading. Quarterly index options and short term index options are also subject to automatic exercise procedures.

⁶ Interpretation .03 will also be amended to clarify that it covers equity options with non-

conforming change to Rule 1804, which supplements Rule 805, also will be made to add Weekly Index Options and Monthly Index Options to the list of options series subject to automatic exercise.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC. In particular, the Commission believes the proposal is consistent with Section 17A(b)(3)(F) of the Act,⁷ which requires that the rules of a registered clearing agency are designed to, among other things, remove impediments to the perfection of the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. By expanding its clearance and settlement services to Weekly Index Options and Monthly Index Options while using substantially the same rules and procedures that it applies to transactions in other options with a nonconventional expiry date, such as Quarterly Index Options, OCC will enable its members to avail themselves of OCC's automated and time-proven clearance and settlement services for such options, which should help OCC to further remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

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 Act⁸ and the

conventional expiration dates as opposed to index options with nonconventional expiration dates, which are subject to automatic exercise as described in Rule 1804.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 15 U.S.C. 78q-1.

rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-OCC-2010-16) be and hereby is approved.¹⁰

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Florence E. Harmon
Deputy Secretary

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 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).

¹¹ 17 CFR 200.30-3(a)(12).