

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67021; File No. SR-OCC-2012-07)

May 18, 2012

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and
of Proposed Rule Change Relating to Adjustment Panel Voting

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on May 7, 2012, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 update the procedures applied to adjustment panel voting and would eliminate the requirement that an adjustment panel be convened to vote on certain specific types of standard contract adjustments affecting equity options.

II. Self-Regulatory Organization's Statement of the 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. The self-regulatory organization has prepared

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.³

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

The principal purposes of this rule change are to update the procedures applied to adjustment panel voting and to eliminate the requirement that an adjustment panel be convened to vote on certain specific types of standard contract adjustments affecting equity options. These changes are intended to improve overall operational efficiency in responding to events for which a contract adjustment may be made.

Background

Certain panels may be convened under OCC's by-laws to (i) determine contract adjustments to the terms of outstanding options when certain events occur (e.g., stock distribution, stock dividend, merger, consolidation or reorganization) and (ii) fix certain amounts or values in respect of certain options in the event a required value is unreported, inaccurate, unreliable, unavailable, or inappropriate. Such panels are convened in accordance with Article VI, Section 11 of OCC's by-laws and currently consist of two representatives of each options exchange on which options affected by the event are traded and one representative of OCC, who votes only in case of a tie. The decision to adjust (and the nature of the adjustment to be made) or to fix an amount or value is made by majority vote of the adjustment panel. Most often, panels are convened to determine adjustments to the terms of outstanding equity options in response to certain corporate events.

³ The Commission has modified the text of the summaries prepared by OCC.

The procedures for panel voting, as described in Article VI, Section 11, have not been updated for over 25 years. In the past, a smaller number of OCC options exchanges posed few problems in convening panels to consider adjustments for equity options. Currently, however, there are nine options exchanges and multiple listing of equity options on several, if not all, exchanges is common. It is increasingly difficult to convene two members from each exchange to consider adjustments on a timely basis. This difficulty is magnified when it is necessary to convene panel meetings to address late-breaking events which often occur outside of normal business hours. Additionally, although all equity option adjustments must currently be addressed by an adjustment panel, certain corporate events and their corresponding option adjustments are so regular and predictable that it no longer appears necessary for an adjustment panel to be convened to address them.

The OCC Securities Committee has unanimously endorsed the proposed changes and OCC's Board of Directors and stockholders have authorized OCC to submit this filing. OCC is continuing to evaluate the rules applicable to adjustment determinations and additional changes may be proposed in the future.

Proposed By-Law Changes

As discussed below, OCC is proposing several changes to the voting procedures for the Securities Committee and adjustment panels. OCC believes the proposed changes will provide significant operational efficiencies, allowing OCC and the option exchanges to respond more quickly to corporate events affecting listed options. The proposed changes to the procedures governing adjustment panel voting would (1) change the

requirement that each exchange be represented by two persons to one person,⁴ (2) allow that adjustment panel actions be determined by votes accomplished by such means as the Securities Committee may designate for that purpose, (3) provide that certain kinds of corporate events shall not require an adjustment panel vote, (4) define a quorum for adjustment panels and provide for majority vote,⁵ and (5) allow the Chairman of OCC to designate a non-officer as his representative on adjustment panels.⁶

The specific corporate events which would no longer require a panel vote to effect an adjustment to the terms of an option would be limited to stock splits or stock distributions where additional shares of the underlying security are issued, reverse splits,

⁴ Panels convened by OCC to fix a required amount or value (as provided for in the by-laws) would continue to include two representatives from each exchange on which the affected series is open for trading. (Such panels also include an OCC representative, who votes only in case of a tie.) OCC believes it appropriate to retain this requirement as the need to fix such amount or value generally would involve series that are less likely to be traded on multiple exchanges. However, certain of the procedural changes being made to Article VI, Section 11 will be applied to the by-laws that permit panels to be convened to fix a required amount or value in order to improve efficiency. These changes include eliminating the requirement that at least one panel member from an exchange be a member of the Securities Committee and allowing such panels to transact its business by such means as determined by the Securities Committee.

⁵ The intent is to ensure that any adjustment decision is determined by a majority of the exchanges (including a representative of OCC if a voting member) that trade the affected option. For example, if eight exchanges trade an option, five exchanges would constitute a quorum for an adjustment panel. However, a majority vote of these five exchanges would require only three exchanges. In this case an adjustment decision would be determined by a distinct minority of the exchanges trading the option. Specifying an *additional* requirement that the action be determined by a majority of the exchanges trading the option provides for an additional level of assurance that a majority of eligible voting members will determine an adjustment.

⁶ Currently, the Chairman is allowed to designate an OCC officer as his representative. OCC believes the Chairman should be able to designate a non-officer as his representative.

and cash mergers or similar events where all shares are exchanged exclusively for cash. Adjustments for stock splits, stock distributions, and reverse splits are generally the most routine option adjustments executed by OCC. Option adjustments for these events, when executed, are the result of well understood formulae and consistent precedent. The Securities Committee does not believe it is necessary to convene adjustment panels for “boiler plate” adjustments of this kind. In like manner, mergers and other events where the affected security is exchanged exclusively for cash have always occasioned option adjustments which have called for the delivery of cash. The Securities Committee does not believe it necessary to convene panel meetings to authorize these adjustments.

While an adjustment panel vote would not be required in these cases, an adjustment panel could be convened at any time at the request of any exchange or OCC in order to address any aspect of the corporate event or option contract adjustment deemed to need discussion by such panel. Also, in all cases of option adjustments, OCC and the exchanges would naturally coordinate the operational execution of the adjustments (effective date, option symbol, strike prices, etc).

The proposed changes also allow convened panels the ability to conduct their business by any means determined by the Securities Committee. Currently, the Securities Committee and panels are allowed to conduct business in person or by phone. For the purposes of exchanging information and registering votes, OCC and the Securities Committee believe that electronic means of communication (e.g., email) should also be allowed as well as other means of communication which may be available in the future (e.g., OCC systems applications developed for this purpose).

OCC believes that the proposed changes to its By-Laws are consistent with the purposes and requirements of Section 17A of the Act⁷ and the rules and regulations thereunder applicable to OCC because they provide for more efficient and effective procedures to be used by the Securities Committee and its panels for the purpose of conducting business by eliminating impediments that elongate voting processes which may cause delays in determining contract adjustments or in fixing a required amount or value. These changes further the purposes of the Act by facilitating the prompt and accurate clearance and settlement of transactions in cleared contracts. 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 will have any impact or 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 relating to the proposed rule change have not been solicited or received. OCC will notify the Commission of any written comments received by OCC.

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:

⁷ 15 U.S.C. 78q-1.

- (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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2012-07 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2012-07. 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 Section, 100 F Street, N.E., Washington, DC 20549-1090, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal office of OCC and on OCC's website at http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_12_07.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-2012-07 in the caption above 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.⁸

Kevin O'Neill
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).