

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-56846; File No. SR-OCC-2007-11)

November 27, 2007

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Expanding Sub-Accounts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on September 28, 2007, 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. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>2</sup> and Rule 19b-4(f)(4) thereunder,<sup>3</sup> so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would expand the functions associated with sub-accounts.

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. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most

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

<sup>2</sup> 15 U.S.C. 78s(b)(3)(iii).

<sup>3</sup> 17 CFR 240.19b-4(f)(4).

significant aspects of such statements.<sup>4</sup>

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

The proposed rule change allows clearing members to maintain sub-accounts for certain types of accounts for position reporting, margin, collateral, and settlement purposes.<sup>5</sup> These sub-accounts would be gradually rolled out to interested clearing members and would be available for firm lien accounts, customers' accounts, customers' lien accounts, and customer segregated funds accounts. Clearing members could continue to be allowed to maintain sub-accounts for combined market-makers' accounts only for position reporting purposes although, as described below, OCC's system sub-accounting function would also be used to enable clearing members to maintain three separate combined market-maker account types under the same clearing member number and to have each account treated as a separate account for all purposes under OCC's By-laws and Rules. Sub-accounting would not be available for separate market-maker's accounts, firm non-lien accounts, or cross-margin accounts other than the OCC internal cross-margin accounts, which are segregated funds accounts in which OCC-cleared securities options may be cross-margined with OCC-cleared futures products.

All sub-accounts for eligible accounts would be enabled to carry positions in OCC-cleared contracts. However, as described in more detail below, margin, collateral, and settlement functions could be turned on or off at the clearing member's election except in combined market-

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<sup>4</sup> The Commission has modified parts of these statements.

<sup>5</sup> In File No. SR-OCC-2005-14, OCC established an interpretation to Article VI, Section 3 of OCC's By-Laws under which clearing members may maintain sub-accounts with respect to any account for position reporting purposes. However, this functionality is currently available only with respect to combined market makers' accounts.

makers' accounts. A sub-account would have to be margin-enabled in order to be collateral enabled and collateral-enabled in order to be settlement-enabled.

If a sub-account is not "margin enabled," the positions in the sub-account will simply be included in the parent account for purposes of calculating the margin requirement except that if a short option position in the sub-account is covered by an escrow deposit or a specific deposit or if the short position has been properly identified in a spread instruction, the short position will not be included in the margin calculation for the parent account. If a sub-account is margin enabled, OCC will calculate and report to the clearing member a separate margin requirement considering only the positions in the sub-account. However, if the account is not collateral enabled or settlement enabled, any margin deficiency will be added to the margin requirement of the parent account. Any excess long option or other asset value in a margin enabled sub-account will not be applied against a margin deficit in the parent account. The provision of OCC Rule 604(b)(4), under which equity and debt issues of a single issuer may not be valued in excess of 10% of the margin requirement of the account in which the securities are deposited, will be separately applied to sub-accounts that are margin enabled.

If a sub-account is "margin and collateral enabled," collateral deposited by a clearing member to satisfy its margin requirements can be identified as being in the particular sub-account at the direction of the clearing member. If the account lacks sufficient excess collateral or has no excess, any margin deficiency will be added to the margin requirement of the parent account. Accordingly, a clearing member may withdraw collateral from the sub-account even if it has a margin deficiency or a margin deficiency would be created provided that the parent account has sufficient excess.

If a sub-account is “margin, collateral, and settlement enabled,” OCC will make separate daily cash settlement with respect to the sub-account. The clearing member may but does not have to designate a bank account for such settlements that is different from the bank accounts used for other settlements. If there is a margin deficiency in the sub-account, OCC will draft the clearing member’s bank account for the deficit without regard to any margin excess in the parent account. Escrow deposits and specific deposits with respect to positions in a sub-account must specify the sub-account regardless of whether the sub-account is margin enabled. Similarly, spread instructions with respect to any position carried in a sub-account must identify the sub-account and will be given no effect unless both legs of the spread are in the same sub-account regardless of whether the sub-account is margin enabled.

The new sub-accounts are not intended as a mechanism for identifying positions or other property as belonging to individual customers of a clearing member or as a substitute for a clearing member’s own books and records. Rather they are intended primarily to allow clearing members more flexibility in structuring the interface between the data they receive from OCC and their own systems. The new sub-accounts are not intended to have any effect on the way in which clearing member accounts would be liquidated in the event of the clearing member’s insolvency, and they will not impose any limits on OCC’s use of proceeds of collateral or positions that are credited to a particular sub-account. For these purposes, each sub-account is simply a part of the parent account to which it is attached, and proceeds will be pooled and netted as and to the extent that they would be if the sub-accounts did not exist and all positions and collateral were commingled and carried in the parent account. Interpretation and Policy .02 to Article VI, Section 3 of OCC’s By-Laws, which is not being amended, together with Interpretation and Policy .03 to Article VI, Section 3, which is not being amended in relevant

part, make this clear. Accordingly, the sub-accounts are not intended to provide any segregation or separation of property to satisfy legal requirements such as the customer protection rules of the Commission or Commodities Futures Trading Commission although, as noted, sub-accounts may be used within a segregated account for purposes of convenience.

The ability of clearing members to use sub-accounts for margin, collateral, and settlement purposes is operational and will not result in lessened margin requirements. In fact, the use of the margin enabling function could result in a higher margin requirement for clearing members because positions in sub-accounts may not be offset against positions in other sub-accounts for purposes of calculating a clearing member's margin requirement, and a margin excess in one sub-account may not be applied against a margin requirement in another sub-account or in the parent account.

In addition to the expansion of functions of sub-accounts, OCC is proposing to use the sub-account capability to facilitate clearing members' ability to maintain separate types of combined market makers' accounts. Under the existing account structure for market-maker accounts, collateral can only be deposited with respect to an entire range of market-maker accounts, including individual market-maker accounts, all combined market-makers' accounts, and any sub-accounts. If a clearing member wishes to clear market-maker business and carry accounts for proprietary market-makers, associated market-makers, and independent market-makers, OCC generally requires that the clearing member open separate clearing member numbers so that proprietary, associated, and independent market-maker collateral can be separated under different clearing numbers. OCC is proposing to allow proprietary, associated, and independent collateral with respect to combined market-makers' accounts to be separated under the same clearing member number. In addition, margin requirements would be calculated

separately with regard to the three account types. The account types for proprietary, associated, and independent market-makers would be treated as separate accounts in the event of a liquidation. Other than with respect to this separation of proprietary, associated, and independent market-maker accounts, use of the sub-account capability with respect to market maker accounts would be permitted only for position reporting purposes.

OCC proposes to expand Interpretation and Policy .03 under Article VI, Section 3, which already addresses the sub-accounts available to clearing members with respect to combined market-makers' accounts to describe the expanded uses of sub-accounts and the accounts for which they are available. This Interpretation and Policy would also be expanded to require clearing members to specify the sub-accounts with respect to which escrow and specific deposits, segregation instructions, and pledges of securities are made. In addition, the portion of the Interpretation and Policy clarifying that sub-accounts will be disregarded in connection with the liquidation of a clearing member would be simplified. OCC is proposing to add Interpretation and Policy .04 under Article VI, Section 3 to explain the manner in which the sub-account capability can be used to separate proprietary, associated, and independent market-maker accounts under the same clearing member number and to clarify that these three account types would be treated as separate for all purposes under OCC's By-laws and Rules. Interpretation and Policy .04 would also clarify that while clearing members may deposit collateral with respect to all combined market-maker account types under the same clearing member number, collateral deposited for this purpose would be proprietary collateral and would be treated as such for all purposes under the By-laws and Rules.

OCC is proposing to add an Interpretation and Policy under Rule 501, which would also be applicable to Rules 502 and 503, to make it clear that daily cash settlement amounts will be

calculated separately for sub-accounts that are settlement enabled. A similar Interpretation and Policy would be added under Rule 601, and be applicable to all of Chapter VI, to clarify the manner in which margin is calculated with respect to sub-accounts and their parent accounts. OCC also proposes to add an Interpretation and Policy to Rule 604 stating that the 10% concentration limit of Rule 604(b)(4) would be separately applied to sub-accounts that are margin enabled.

An Interpretation and Policy would be added under Rule 803, which would relate to assignment of exercise notices to clearing members, stating that where an account is divided into sub-accounts assignment of exercise notices will be made to specific sub-accounts. OCC is also proposing to add an Interpretation and Policy under Rule 804, which would relate to allocation of exercises by clearing members to specific short positions, under which clearing members would be required to allocate exercises by sub-account in accordance with OCC's assignment procedures described in the Interpretation and Policy to Rule 803.

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Act because it is designed to promote the prompt and accurate clearance and settlement of transactions in options and futures, and to foster cooperation and coordination with persons engaged in the clearance and settlement of such transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions, and, in general, to protect investors and the public interest. The proposed rule change accomplishes this purpose by permitting clearing members to establish sub-accounts within certain of the OCC account types in order that clearing members may identify positions or property belonging to individual customers for the clearing members'

internal purposes while having no adverse impact on OCC's maintain adequate security for clearing members' obligations under OCC's By-laws and Rules.

(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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>6</sup> and Rule 19b-4(f)(4)<sup>7</sup> promulgated thereunder because the proposal effects a change in an existing service of OCC that (A) does not adversely affect the safeguarding of securities or funds in the custody or control of OCC or for which it is responsible and (B) does not significantly affect the respective rights or obligations of OCC or persons using the service. At any time within sixty days of the filing of the proposed rule change, the Commission could have summarily abrogated such rule change if it appeared to the Commission that such action was necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

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<sup>6</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>7</sup> 17 CFR 240.19b-4(f)(4).



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](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2007-11 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2007-11. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office

of OCC. 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-2007-11 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>8</sup>

Nancy M. Morris  
Secretary

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<sup>8</sup> 17 CFR 200.30-3(a)(12).