SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63066; File No. SR-OCC-2010-13)

October 8, 2010

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change To Allow for Adjustments to the Settlement Price of Exchange-Designated Security Futures for All Cash Dividends or Distributions Paid by the Issuer of the Underlying Security

I. Introduction

On August 19, 2010, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-OCC-2010-13 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] On August 25, 2010, OCC amended the proposed rule change. Notice of the proposal was published in the Federal Register on September 7, 2010.[2] The Commission received no comment letters in response to the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The primary purpose of this proposed rule change is to revise OCC's By-Laws to allow OCC to make adjustments to the settlement price of exchange-designated security futures for all cash dividends or distributions paid by the issuer of the underlying security. Under its current rules, OCC makes such adjustments only for "non-ordinary" dividends. However, OneChicago, LLC ("OneChicago") has informed OCC that it believes there is a demand for security futures that would be adjusted in response to all cash dividends or distributions. Accordingly, OCC is amending Section 3 of Article XII of its By-Laws to permit exchanges to designate certain

1 15 U.S.C. 78s(b)(1).

2 Securities Exchange Act Release No. 62801 (August 31, 2010), 75 FR 54410.

security futures that will be adjusted for ordinary as well as “non-ordinary” cash dividends and distributions. Exchanges can continue to trade security futures that will be adjusted only in the event of a “non-ordinary” dividend or distribution.

For security futures subject to adjustment for all cash dividends or distributions, it will be the exchange’s responsibility to inform OCC of the issuance of a cash dividend or distribution and of the appropriate adjustment amount. Provided that such information (including any corrections thereto) is reported to OCC before an OCC-designated cut-off time prior to the ex-date, OCC will make the appropriate adjustment to the settlement price of the security futures contract. Such adjustments will be effective before the opening of business on the ex-date.[3] If the exchange fails to report dividend or distribution information to OCC on a timely basis or reports incorrect dividend or distribution information to OCC, then the exchange will be able to report such information or corrected information to OCC on the ex-date, and OCC will effect the adjustment as soon as practicable thereafter.[4] In the event the exchange already opened trading

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3 The standard method for adjusting futures contracts in response to cash distributions is to decrease the prior day’s settlement price by the amount of the dividend. This adjustment is effective at the opening of business on the ex-distribution date and parallels the adjustment made to the price of the underlying stock by the securities exchanges on the ex-distribution date. It is intended to ensure that no futures mark-to-the-market attributable to the adjustment made to the stock price for the dividend will occur.

4 OCC also proposes to add Interpretation and Policy .10 to Article XII, Section 3 to provide that officially reported settlement prices will not be adjusted (other than as provided for in the By-Laws and Rules) except in extraordinary circumstances. The Interpretation further provides that in no event will a completed settlement be adjusted due to errors discovered thereafter. This latter provision is intended to preserve the finality of money settlements should it later be determined that an officially reported settlement price was erroneous. The new Interpretation is based on existing provisions of OCC’s By-Laws. See, e.g., Article XIV, Section 6, Interpretation and Policy .01; Article XVI, Section 4, Interpretation and Policy .01; and Article XVII, Section 4, Interpretation and Policy .01.

in the security futures contracts affected thereby, the exchange will provide OCC with direction on whether such trades should be cleared or disregarded as provided for in Article VI, Section 7 of OCC's By-Laws. Pursuant thereto, disregarded transactions will be deemed null and void and given no effect. These procedures are intended not only to preserve OCC's ability to initiate and conduct nightly processing on a timely basis but also to provide the exchange with the opportunity to report to OCC dividend or distribution information that was not available to it before OCC's processing cut-offs or to correct erroneously reported information so that there is an appropriate adjustment to the settlement price for the affected contracts.

In connection with OneChicago's proposal, OneChicago and OCC also have agreed to amend the Security Futures Agreement for Clearing and Settlement Services, dated April 1, 2002, ("Clearing Agreement") by entering into Amendment No. 1 thereto.[5] Amendment No. 1 would amend Section 5 of the Clearing Agreement to permit OneChicago to designate those security futures contracts for which adjustments will be made in response to all cash dividends or distributions of the underlying securities and to set forth OneChicago's obligation to furnish OCC with notice of all relevant information regarding such dividends or distributions so that OCC can adjust the settlement price of the affected security future as described above. Amended Section 5 further extends the current indemnification provided by OneChicago to OCC to cover losses resulting from OCC's adjustment of the settlement prices of security futures in accordance with dividend or distribution information supplied by OneChicago or OCC's failing to adjust in the event OneChicago did not supply OCC with information regarding such an adjustment.

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[5] Amendment No. 1 will be executed after the effectiveness of this filing..

III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of security transactions and generally to protect investors and the public interest.[6] The Commission believes that OCC's rule change is consistent with this Section because the rule change should better enable OCC to promptly and accurately clear and settle security futures contracts for which an exchange has designated that the settlement prices will be adjusted to reflect the issuance of all cash dividends or distributions on the underlying security.

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 Act and the rules and regulations thereunder. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation.

[6] 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2010-13) be and hereby is approved.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[7]

Florence E. Harmon
Deputy Secretary

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[7] 17 CFR 200.30-3(a)(12).