



8011-01P
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72294; File No. SR-OCC-2014-12)

June 2, 2014

Self-Regulatory Organization; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Make The Options Clearing Corporation's Existing Policy Concerning Specified Concentration Limits Related to Deposits of Certain Letters of Credit Applicable to All Letters of Credit

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 20, 2014, 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 by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

OCC proposes to amend Rule 604 in order to make OCC's existing policy concerning specified concentration limits related to deposits of certain letters of credit applicable to all letters of credit.

II. Clearing Agency'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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to make OCC's existing policy concerning concentrated margin deposits of certain issuers of letters of credit ("LC") applicable to all LC issuers. Currently, OCC imposes concentration limits on clearing member margin deposits of LCs issued by certain non-U.S. institutions.³ Specifically, OCC limits the concentration of a clearing member's margin deposits of LCs issued by such non-U.S. institutions to no more than 50% of a clearing member's total margin deposit at any given time, and no more than 20% of a clearing member's margin deposit may include an LC issued by any one of these non-U.S. institutions.⁴

OCC's Risk Committee recently requested a review of those aspects of OCC's risk management framework that are designed to mitigate the risks associated with accepting LCs for margin purposes, including the risk that an issuer of an LC will not

³ These concentration limits, however, are not currently applied to LCs issued by non-U.S. institutions that qualify as financial holding companies under Regulation Y or have an affiliate that is so qualified. In order to be deemed a financial holding company under Regulation Y, among other things, the institution must make certain certifications regarding the capitalization of the depository institutions controlled by the holding company. *See* OCC Rule 604, Interpretation and Policy .02. *See also* Securities Exchange Act Release No. 5037 (November 6, 2001), 66 FR 57143 (November 14, 2001) (SR-OCC-2001-03).

⁴ *Id.*

honor its commitment to effect timely payment following an OCC demand therefor.⁵ Such review identified two instances in which over 50% of a clearing member's total margin on deposit was satisfied by LCs. OCC's Risk Committee determined this level of exposure to LCs to be excessive. Therefore, OCC proposes to make the existing concentration limits related to the deposit of LCs, as set forth in OCC Rule 604, Interpretation and Policy .02, applicable to all margin deposits of LCs regardless of issuer. As a result of this change, no more than 50% of a clearing member's margin on deposit may include LCs and no more than 20% of a clearing member's margin may include an LC from a single issuer. This proposed change is intended to reduce OCC's overall credit risk exposure to LCs deposited as margin by a single clearing member and the potential adverse consequences should an LC issuer not perform upon its payment commitment after receiving a demand for payment.

OCC believes that the proposed change will have a minimal impact on its clearing members because LCs comprise less than one percent of OCC's total margin deposits and are currently used by only 13 clearing members. OCC estimates that the proposed change will impact three clearing members and .13% of OCC's total margin deposits. Each of these three clearing members has been advised of the proposed change and has indicated that it will be able to modify its margin deposit practices to reduce its LC deposits without undue difficulty. Moreover, OCC is not proposing to modify any of its other rules, policies or procedures concerning LCs.

⁵ Pursuant to the terms of the LCs accepted by OCC as well as OCC's Rules, issuers of LCs are required to satisfy any demand for payment within sixty minutes after receipt of such demand. *See* OCC Rule 604(c)(1).

Prior to implementation of this proposed rule change, OCC will publish an information memorandum to inform all clearing members of the proposed rule change. In addition, clearing members that are directly affected by the proposed rule change have been contacted regarding this filing and all clearing members (even if not directly affected by this proposal) will have access to information, as necessary, to better understand any potential impact the proposed rule change may have on their margin deposits at OCC.

2. Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁶ because it will assure the safeguarding of securities and funds which are in the custody and control of OCC. In addition, the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions for which it is responsible. OCC believes that the proposed changes to its existing concentration limit policy for LCs, as described above, will reduce certain credit risks associated with the deposit by a clearing member of LCs as a form of margin asset and make it less likely that such margin asset would not be available to OCC should OCC need to use it to close-out positions of a defaulted clearing member. For the same reasons, the proposed rule change will promote confidence that OCC will be able to timely meet its settlement obligations because the changes to OCC's concentration limit policy for LCs will reduce the likelihood that a percentage of a defaulting clearing member's margin assets would not be available to OCC in the event of a clearing

⁶ 15 U.S.C. 78q-1(b)(3)(F).

member default. The proposed rule change is not inconsistent with any rules of OCC, including any other rules proposed to be amended.

(B) Clearing Agency's Statement on Burden on Competition

OCC believes that the proposed rule change would impose a minimal burden on competition, and that such burden is appropriate in furtherance of the purposes of the Act.⁷ As stated above, this proposed rule change affects certain clearing members who deposit LCs as a form of margin asset at OCC because they would be required to modify their business practices and potentially incur certain costs in doing so. However, OCC believes that any burden imposed upon such clearing members is necessary in furtherance of the purposes of the Act and is minimal in nature. The proposed rule change will reduce OCC's credit exposure to those clearing members who deposit LCs as a form of margin asset thereby better ensuring that OCC safeguards the securities and funds in OCC's custody and control as well as promoting the prompt and accurate clearance and settlement of securities transactions for which OCC is responsible. In addition, OCC believes that the proposed rule change will have a minimal impact on its clearing members. LCs comprise less than one percent of OCC's total margin deposits and OCC anticipates that the proposed rule change will impact three clearing members, each of which has indicated that it is able to comply with the change without undue difficulty. Moreover, clearing members are able to deposit a large variety of asset types to satisfy their margin requirement at OCC including, but not limited to, common stocks, government securities and money market funds.

⁷ 15 U.S.C. 78q-1(b)(3)(I).

For the foregoing reasons, OCC believes that the proposed rule change imposes a minimal burden on competition, but such burden is appropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change 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

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:

- (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 Commissions 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-2014-12 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2014-12. 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, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at

http://theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_14_12.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-2014-12 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 M. O'Neill
Deputy Secretary

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⁸ 17 CFR 200.30-3(a)(12).