



January 9, 2013

VIA ELECTRONIC MAIL

David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Filing Withdrawal and Re-submission (SR-OCC-2012-24 Rule Certification)

Dear Secretary Stawick:

On December 13, 2012, The Options Clearing Corporation (“OCC”) submitted the above-referenced rule filing to the Commodity Futures Trading Commission (the “CFTC” or “Commission”) requesting approval pursuant to Commission Regulation 40.5. With this submission, OCC hereby withdraws the captioned submission from consideration by the CFTC, and contemporaneously herewith, resubmits the enclosed Rule Filing SR-OCC-2012-24 pursuant to the self-certification procedures of Commission Regulation 40.6. The date of implementation of the rule is the later of 10 business days following receipt of the rule filing by the CFTC hereof or the date the proposed rule is approved by the Securities and Exchange Commission (the “SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (the “Exchange Act”). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

Explanation and Analysis

The purpose of the proposed rule change is to make certain technical changes to the By-Laws and Rules governing OCC’s Stock Loan/Hedge Program and Market Loan Program (collectively, the “Programs”) in order to make them consistent with recent system changes to the Programs and to delete certain terms and provisions that are no longer applicable.

Background

OCC’s Stock Loan/Hedge Program is provided for in Article XXI of the By-Laws and Chapter XXII of the Rules, and provides a means for OCC clearing members to submit broker-to-broker stock loan transactions to OCC for clearance. Broker-to-broker transactions are independently-executed stock loan transactions that are negotiated directly between two OCC

clearing members. OCC's Market Loan Program, provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules, accommodates securities loan transactions executed through electronic trading platforms that match lenders and borrowers on an anonymous basis. Anonymous stock loan transactions are initiated when a lender or borrower, who is either an OCC clearing member participating in the Market Loan Program or a non-clearing member who has a clearing relationship with an OCC clearing member participating in the Market Loan Program, accepts a bid/offer displayed on a trading platform. A clearing member participating in the Market Loan Program will be obligated to OCC as principal with respect to transactions effected by its customers that are non-clearing members of a trading platform.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction. OCC leverages The Depository Trust Company's ("DTC" or the "Depository") infrastructure to transfer loaned stock and collateral between OCC clearing members.

Recently, OCC performed a series of procedural changes and system enhancements designed to automate processes that had previously been performed manually and improve the allocation process for stock loan and borrow positions of OCC members who participate in the Stock Loan/Hedge Program and the Market Loan Program. For example, OCC has simplified the process in which stock loan positions are allocated or transferred across a clearing member's account structure. Clearing members now specify a "default" account into which stock loan and borrow positions are automatically allocated, and from which transfers and returns are processed, unless otherwise specified in an instruction submitted by the clearing member. Additionally, OCC now has the functionality to receive messages from DTC in real-time, including reclaim requests (*i.e.*, requests submitted by a lender or borrower to DTC to reverse an initial delivery order). Although OCC had previously processed such messages on a manual basis, system changes now enable OCC to automatically process reclaim requests received from DTC on a real-time basis throughout the day. As such, clearing members may now view their positions in real-time, and perform transfers throughout the day based on real-time position information. OCC system changes also provide clearing members with additional mark-to-market rounding flexibility, allowing clearing members to now round their mark-to-market pay and collect amounts to decimal amounts. Finally, the system changes provide clearing members the ability to use sub-accounting functionality that already exists for other products cleared by OCC. In particular, the use of sub-accounting functionality allows a clearing member to segregate individual accounts within its customer, firm, or market-maker ranges, providing greater flexibility in how the clearing member manages individual account positions and margin requirements.

While these system changes and procedural changes increase the efficiency and accuracy of the processes by which stock loan and borrow transactions are processed and positions are maintained, they have no impact on the substantive rights or obligations of OCC or any clearing member. They are intended to permit clearing members to manage their stock loan and borrow transactions and positions in a more efficient manner. OCC seeks to amend its By-Laws and

Rules to reflect these changes, as well as to remove certain terms and provisions which are no longer relevant.

Description of Rule Change

1. Designation of Accounts For Stock Loan Transactions And Transfers Between Accounts

The current versions of Rules 2201(a) and 2201A(a) describe a process by which clearing members provide OCC with standing instructions designating one or more accounts in which the clearing member's stock loan and borrow positions may be carried. These provisions of Rule 2201(a) and 2201A(a) need to be amended to conform with recent system changes to the Programs, as described in the Background section above. Under the system changes, clearing members are required to designate one default account, which can be any of the clearing member's accounts or sub-accounts thereof (*e.g.*, Customers', Firm, or Market Maker) that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws to hold stock loan and borrow positions, to which the Corporation can allocate new stock loan and borrow positions in the absence of executable instructions from the clearing member to allocate the new positions to a different account. When a clearing member effects a new loan or borrow, the clearing member can designate an account (or a sub-account thereof) to which the position is to be allocated. If, however, there is no such designation, or the designation is invalid for any reason, the position is allocated to the default account. The clearing member may thereafter transfer stock loan or borrow positions among eligible accounts by submitting an appropriate instruction to OCC. The Corporation proposes to revise Rules 2201 and 2201A to make them consistent with this new system requirement.

Interpretation .01 under each of Rule 2201 and Rule 2201A provides details of the process by which a clearing member may transfer existing stock loan or borrow positions (in whole or in part) among its accounts and permits the clearing member to specify a sequence of accounts for the allocation by OCC of its positions if the clearing member attempts to transfer more or fewer shares than its end-of-day loan or borrow position. Under the new system, in connection with a transfer of an existing stock loan or borrow position, shares are taken from the account or sub-account specified by the clearing member. If there are not enough shares in a stock loan or borrow position in that account, the transfer instruction will be rejected. The Corporation proposes to revise Interpretation .01 under Rules 2201 and 2201A to make it consistent with this new system for processing transfers among accounts.

Interpretation .01 to each of Rule 2201 and Rule 2201A also currently uses the term "allocated" when describing how a clearing member can move positions among its accounts. The Corporation proposes to make a technical change to these Interpretations to change the term "allocate" to "transfer" as "transfer" is a more accurate description that distinguishes the process from the initial "allocation" of a transaction to a designated account.

With respect to returns of stock, Interpretation .02 under each of Rule 2201 and Rule 2201A describes the current system which relies in part upon the sequence of accounts specified by a clearing member (referred to in the preceding paragraph) to allocate returns among the clearing member's accounts with stock loan or borrow positions in the returned stock. Under the new system, returns are reflected in the clearing member's account or sub-account specified on the original delivery order submitted by DTC. If there are not enough shares in the position in that account, the excess shares to be returned are reflected in the clearing member's default account.

If there are not enough shares in the applicable position in the default account, the remaining shares are rejected and the return instruction is void to that extent. If no account is designated in the DTC delivery order, then shares are taken from the clearing member's default account and any excess shares are rejected and the return instruction is void to that extent. The Corporation proposes to amend Interpretation .02 under Rules 2201 and 2201A to reflect the new process.

2. Reclaim Transactions

Reclaim transactions are submitted to DTC by either the borrower (to reclaim new loans) or the lender (to reclaim returns) to reverse initial Delivery Orders ("DOs") for a variety of reasons (e.g., DK, wrong quantity, wrong security, wrong money). When DTC receives a reclaim for a previously submitted Stock Loan/Hedge transaction, DTC attempts to match the reclaim to a DO from the same day. Previously, this process occurred throughout the day at DTC, and OCC received only a final positions file after all transactions were processed. As such, the end-of-day file received by OCC did not contain information about reclaims.

OCC now receives messages in real-time from DTC, which include reclaim transactions. Although OCC previously handled reclaim transactions manually, OCC's system changes now enable OCC to process reclaims systemically. More specifically, OCC system changes enable OCC to begin processing intra-day real-time messages, rather than end-of-day batch files. Under the new process: (i) if OCC receives a reclaim message, the system will attempt to match it to a new loan, borrow or return that occurred that same day and, if a match is found, the system will "bust" it (i.e., void the original transaction); (ii) OCC will reject any attempted reclaim of a new loan, borrow or return done on a previous day; and (iii) OCC will reject reclaims that create excess shares (i.e., not enough shares in the account to reduce). Rejected reclaims will not be processed, but will be provided to the clearing member through an on-demand report listing rejected reclaims, along with the basis for the rejection. In connection with reclaim transactions, OCC proposes to include provisions in the Rules to provide certain protections for OCC in the situation where DTC sends a notice to OCC to reverse an initial DO. Specifically, the Corporation proposes to add to Rule 2202(b) a provision that, if OCC determines that it is able to process a reclaim, OCC may disregard the initial DO and such DO shall be deemed null and void and given no effect for purposes of OCC's By-Laws and Rules. In addition, amended Rule 2202(b) would provide that OCC shall have no obligation or liability to any clearing member in acting, or failing to act, pursuant to a DTC notification to reverse an initial DO. OCC may not process a reclaim for various reasons, including but not limited to: (i) securities that are not eligible for stock loan transactions; (ii) invalid clearing member; or (iii) reclaim is received not on the same day as the initial delivery order. Finally, the Corporation proposes to add Interpretation .01 to Rule 2202 to provide that although the Corporation now makes updated stock loan and borrow position information available to each clearing member during a business day, such updated position information is considered provisional and informational only and is subject to revision at any time, and that only the official daily position report may be relied upon as definitely reflecting a clearing member's final stock loan and borrow positions because positions may be altered during the day, for example, to reflect reclaim transactions.

3. Margin-Ineligible Accounts and Stock Loan and Borrow Baskets

The current By-Laws and Rules contain references to "margin-ineligible" and "margin-eligible" accounts. As there are no longer any margin-ineligible accounts (i.e., all stock loan and

borrow positions are now included in margin calculations),¹ the Corporation proposes to remove references to “margin-ineligible” and “margin-eligible” accounts from the By-Laws and Rules.

The By-Laws and Rules also currently contain references to “stock loan baskets” and “stock borrow baskets.” As OCC no longer allows these products, the Corporation also proposes to remove references to “stock loan baskets” and “stock borrow baskets” from the By-Laws and Rules.

4. Receiver Authorized Delivery Processing

DTC has made changes to its systems such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to DTC’s Receiver Authorized Delivery (“RAD”) processing.² RAD is generally a control mechanism that DTC employs that allows users to review and either approve or cancel incoming deliveries before they are processed to avoid reclamations. DTC’s system establishes a minimum RAD limit of \$15 million for delivery orders, and each firm is responsible for setting its own RAD limits (dollar amounts) for each counterparty so that a delivery with a settlement value exceeding the specified limit will not be processed until approved. If a firm elects not to set limits, the default limit of \$15 million will be applied. To ensure that deliveries in the Market Loan Program flowed through to OCC unimpeded, OCC adopted Interpretation .07A under Article V, Section 1 of the By-Laws. This provision requires each clearing member that is a Market Loan Participant to set its RAD limit to the highest level permitted under DTC’s rules. DTC has made system changes such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to RAD processing. Accordingly, all transactions will flow through unimpeded without the need for Market Loan Participants to set RAD limits.³ Thus, there is no longer any need for the provision in Interpretation .07A under Article V, Section 1 of the By-Laws that requires Market Loan Participants to set RAD limits, and the Corporation proposes that it be removed.

Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC’s website concurrently with the filing of this submission.

¹ Securities Exchange Act Release No. 59036 (Dec. 1, 2008), 73 FR 74554 (Dec. 8, 2008) (SR-OCC-2008-06).

² Securities Exchange Act Release No. 66179 (Jan. 18, 2012), 77 FR 3531 (Jan. 24, 2012) (SR-DTC-2011-08).

³ Exclusion of Market Loan Program transactions from RAD limits will in no way impede OCC’s ability to manage risk of stock loan and borrow positions because OCC never relied on the DTC RAD limits as a risk management tool.

David Stawick
January 9, 2013
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Certification

OCC hereby certifies that the attached rule filing complies with the Act and the CFTC's regulations thereunder.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,



Bruce C. Kelber
Vice President & Associate General Counsel

Enclosure

cc: CFTC Central Region (w/ enclosure)
525 West Monroe Street, Suite 1100
Chicago, IL 60661

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Text of the Proposed Rule Change

The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to make certain technical changes to its By-Laws and Rules governing OCC’s Stock Loan/Hedge Program and Market Loan Program (collectively, the “Programs”). The purpose of the proposed amendments is to make the By-Laws and Rules consistent with recent system changes to the Programs and to delete certain terms and provisions that are no longer applicable. Material proposed to be added to OCC’s By-Laws and Rules as currently in effect is underlined. Material proposed to be deleted is enclosed in bold brackets. Material proposed to be added to or deleted from OCC’s current Rules pursuant to SR-OCC-2012-14, a pending notice of proposed rule change relating to the clearing of over-the-counter options on the S&P 500 Index, is marked with double underlining or double bold brackets, respectively.

**THE OPTIONS CLEARING CORPORATION
BY-LAWS**

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**ARTICLE I
Definitions**

* * *

SECTION 1. [No Change.]

A. – L. [No Change.]

M.

[Margin-Eligible

(1) The term "margin-eligible", as used with reference to an account of a Hedge Clearing Member with the Corporation, shall mean that all stock loan positions and stock borrow positions carried in such account are taken into account in determining the Clearing Member's margin obligations to the Corporation, and, as used with reference to stock loan positions and stock borrow positions, shall mean that such positions are carried in a margin-eligible account. All stock loan positions included in any stock loan basket, and all stock borrow positions included in any stock borrow basket, shall be margin-eligible. All accounts of a Hedge Clearing Member, other than any account in respect of which the Hedge Clearing Member gives a standing instruction pursuant to Rule 2201 specifying that the account shall be margin-ineligible, shall be margin-eligible.]

[Margin-Ineligible]

(2) The term "margin-ineligible", as used with reference to an account of a Hedge Clearing Member with the Corporation, shall mean that any stock loan positions and stock borrow positions carried in such account are not taken into account in determining the Clearing Member's margin obligations to the Corporation, and, as used with reference to stock loan positions and stock borrow positions, shall mean that such positions are carried in a margin-ineligible account.]

(3) - (15) [Renumbered (1) – (13)]

* * *

N. – R. [No Change.]

S.

(1) – (19) [No Change.]

[Stock Borrow Basket]

(20) The term "stock borrow basket" means one or more stock borrow positions carried in a particular margin-eligible account of a Clearing Member with the Corporation, or specified portions thereof, grouped together and designated to the Corporation as a stock borrow basket by the Borrowing Clearing Member carrying such positions.]

(21) – (23) [Renumbered (20) – (22)]

[Stock Loan Basket]

(24) The term "stock loan basket" means one or more stock loan positions carried in a particular margin-eligible account of a Clearing Member with the Corporation, or specified portions thereof, grouped together and designated to the Corporation as a stock loan basket by the Lending Clearing Member carrying such positions.]

(25) – (28) [Renumbered (23) – (26)]

T. – Z. [No change.]

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ARTICLE V Clearing Members

Qualifications

SECTION 1. [No Change.]

... *Interpretations and Policies:*

.01 - .06 [No Change.]

.07 *Designation as a Hedge Clearing Member*

In order to be designated as a Hedge Clearing Member, a Clearing Member must (i) be a member of the Depository (as defined in Article XXI of the By-Laws), and (ii) execute such agreements and other documents as the Corporation may prescribe. [In order to be eligible to create stock loan baskets and stock borrow baskets, a Clearing Member must also be an Index Clearing Member.

In order to clear opening Hedge Program transactions in a margin-ineligible account, a Hedge Clearing Member must maintain excess net capital of at least \$75 million. A Hedge Clearing Member will not be permitted to clear opening Hedge Program transactions in margin-ineligible accounts if the Clearing Member experiences any of the following: (i) a loss in any calendar month equal to or greater than 50% of excess net capital; (ii) cumulative losses over two consecutive months equal to or greater than 60% of excess net capital; or (iii) cumulative losses over three consecutive months equal to or greater than 70% of excess net capital.

Any participant in the Hedge Program that fails to maintain the minimum specified excess net capital or experiences losses that exceed the foregoing limits will be precluded from initiating opening stock loan and borrow transactions in a margin ineligible account until the firm is again in compliance with these capital and profitability standards; provided, however, that a

Hedge Clearing Member maintaining one or more margin-ineligible accounts on or prior to May 21, 2003 may continue to initiate stock loan and borrow transactions in such accounts for a period of one year from such date without regard to the minimum excess net capital requirement. If the Clearing Member is not in compliance with the requirement at the end of this grace period, the Corporation will convert the Clearing Member's account(s) to margin-eligible status.]

.07A Designation as a Market Loan Clearing Member

In order to be designated as a Market Loan Clearing Member with respect to a particular Loan Market, a Clearing Member must be a Hedge Clearing Member and (i) be a U.S. Clearing Member, (ii) be a subscriber to such Loan Market with full access to services provided by the Loan Market, (iii) be a member of the Depository that has provided the Depository with written authorization to honor instructions issued by the Corporation against such Clearing Member's account at the Depository, and (iv) [set and maintain such Clearing Member's RAD limit at the Depository in respect of transactions with the Corporation as the counterparty at the highest level permitted under the Depository's rules and (v)] execute such agreements and other documents as the Corporation may prescribe. A separate designation is required for each Loan Market in which a Clearing Member participates. A Market Loan Clearing Member shall continue to comply with all conditions referred to in (i) – (iv) above until the Clearing Member has terminated all open stock borrow and loan positions resulting from Market Loans.

.08 - .10 [No Change.]

* * *

ARTICLE XXI
Stock Loan/Hedge Program

* * *

Role of the Corporation

SECTION 2. [No Change.]

. . . Interpretations and Policies:

.01 [No Change.]

[.02 The Corporation will provide notice to Clearing Members when the stock borrow basket/stock loan basket program becomes operative. Until that time, Clearing Members may not designate stock loan or stock borrow positions for inclusion in such baskets.]

* * *

RULES

* * *

**CHAPTER VI
Margins**

* * *

Margin Requirements

RULE 601. (a) *Deposit of Margin Assets.* Prior to the time specified by the Corporation on every business day, every Clearing Member shall be obligated to deposit with the Corporation, in accordance with the following provisions of this Rule, margin assets with respect to (1) the positions in cleared contracts maintained in each account with the Corporation at the opening of such business day (including positions resulting from confirmed trades [[Exchange transactions]] having a settlement time on such business day); (2) the [margin-eligible] stock loan positions and stock borrow positions maintained in each account with the Corporation at the opening of such business day (including such positions that were established as a result of Stock Loans initiated on the preceding business day); and (3) any settlement obligations in an account arising from the exercise, assignment, or maturity of any of the foregoing. The minimum amount of margin assets that a Clearing Member is required to deposit with the Corporation shall be such that the aggregate margin assets deposited in respect of the Clearing Member's account, including the margin assets deposited on such business day, is equal to the margin requirement for such account calculated pursuant to the applicable provisions of this Rule 601.

(b) – (e) [No change.]

* * *

Daily Margin Report

RULE 605. Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) of each business day, the Corporation shall make available to each Clearing Member a Daily Margin Report for each account maintained by the Clearing Member with the Corporation. The Daily Margin Report shall show the amount of margin required by the Corporation on the Clearing Member's short positions in options (including futures options and commodity options that are subject to the Corporation's margin requirements pursuant to any Participating CCO Agreement), the Clearing Member's positions in futures (including commodity futures that are subject to the Corporation's margin requirements pursuant to any Participating CCO Agreement), and the Clearing Member's exercised contracts[,] and stock loan and borrow

positions [and stock loan baskets and stock borrow baskets]. Margins previously deposited by the Clearing Member and any surplus over the amount required or deficit to be satisfied, as the case may be, will also be shown. A deficit in any account of a Clearing Member as shown in the Daily Margin Report of a particular day shall be satisfied by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on such day, notwithstanding any error in such Report and notwithstanding any margin excess that may exist in another account of the Clearing Member. Subject to the provisions of Rule 606, the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of any account an amount equal to such deficit as shown on the Daily Margin Report. All errors in the Daily Margin Report shall be reported to the Corporation promptly, and any correction or adjustment in the amount of required margin shall be shown on the next day's Daily Margin Report.

* * *

CHAPTER XXII Stock Loan/Hedge Program

* * *

Instructions to the Corporation

RULE 2201. (a) In respect of stock loan and stock borrow transactions which are intended for inclusion in the Stock Loan/Hedge Program and stock loan and stock borrow positions resulting from such transactions, a Hedge Clearing Member shall provide standing instructions to the Corporation with respect to matters identified by the Corporation from time to time, including but not limited to (i) the account number of each account with the Depository in which stock loan and stock borrow transactions are to be effected, (ii) the default account [or accounts] with the Corporation, which may be any of the Hedge Clearing Member's accounts or sub-accounts thereof that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws, to[in] which new stock loan positions and stock borrow positions are to be [carried] allocated in the absence of executable instructions of the Clearing Member to allocate the positions to a different account, (iii) [if the Hedge Clearing Member has been approved to maintain stock loan positions and stock borrow positions in its accounts with the Corporation on a non-margined basis, the account or accounts (if any) with the Corporation that are to be margin-ineligible, (iv)] the account with the Corporation (which may be the Clearing Member's firm account or its combined Market-Makers' account) from and to which mark-to-market payments are to be made, and (iv) the Collateral requirement that will be applicable to the stock loan positions of the Hedge Clearing Member (expressed as a percentage of the mark-to-market value of the Eligible Stocks that are the subject of the stock loan positions, which percentage may be set at 100% or 102%). The Corporation may also permit a Hedge Clearing Member to provide standing instructions with respect to other aspects of the Clearing Member's

participation in the Stock Loan/Hedge Program. [If a Hedge Clearing Member is authorized by the Corporation to create stock loan baskets and stock borrow baskets, the Clearing Member may also provide standing instructions as to whether its stock loan positions or stock borrow positions are to be classified, respectively, in stock loan baskets or stock borrow baskets and, if its stock loan positions or stock borrow positions are to be so classified, as to the index class group in which such positions are to be classified.] A Hedge Clearing Member may revise its standing instructions, subject to the Corporation's notice requirements as in effect from time to time.

(b) A Hedge Clearing Member may give the Corporation specific instructions from time to time which are contrary to its standing instructions with respect to [(i)] the account (or sub-account thereof) to[in] which a particular stock loan or stock borrow position (either a new position or an existing position which the Hedge Clearing Member wishes to transfer to a different account) is to be [carried]allocated. With respect to a new position, in the absence of such specific instructions, or if the specific instruction is invalid for any reason, the position will be allocated to the Hedge Clearing Member's default account[or (ii) the classification of particular stock loan positions or stock borrow positions in stock loan baskets or stock borrow baskets].

... Interpretations and Policies:

.01 At any time on any business day prior to the deadline specified by the Corporation, an eligible Hedge Clearing Member may [allocate]transfer all or any portion of [its]an existing stock loan [and]or stock borrow position[s resulting from Stock Loans](including positions resulting from that day's activity) among its accounts by submitting an appropriate transfer instruction to the Corporation that designates the accounts and/or sub-accounts from and to which the positions shall be transferred. If a Hedge Clearing Member's request for transfer exceeds the number of stock loan or stock borrow shares available in the account from which the shares will be transferred, then the transfer instruction will be rejected. [In order to be eligible to allocate such stock loan and borrow positions, a Hedge Clearing Member must maintain at least one margin-eligible account with the Corporation. Each Hedge Clearing Member shall give standing instructions specifying the sequence in which stock loan and stock borrow positions are to be allocated among its accounts if it allocates more or fewer shares of a particular stock than its end-of-day loan or borrow position in that stock. If the total loan or borrow position in any stock allocated by the Clearing Member exceeds the total end of day loan or borrow position in that stock reported by the Depository to the Corporation, the Corporation will allocate the positions to each account up to the number of shares allocated to that account by the Clearing Member in accordance with the Clearing Member's preferred sequence of accounts. If the total loan or borrow position in any stock allocated by the Clearing Member is less than the total end of day loan or borrow position in that stock reported by the Depository to the Corporation, any excess shares will be allocated to the Clearing Member's default account.]

.02 Returns of shares shall be reflected in the Hedge Clearing Member's account or sub-account designated on a delivery order submitted by the Depository. If there are insufficient shares in the designated account to fulfill the return instruction, or if there is no account designated in the Depository delivery order, the excess shares to be returned shall be taken from the Clearing Member's default account. If there are insufficient shares in the default account to fulfill the return instruction, the remaining shares shall be rejected and the return instruction will be void to that extent.[If a Hedge Clearing Member has identified a preferred account sequence for allocation of stock loan and stock borrow positions resulting from Stock Loans on any business day, then in processing a return of fewer than all of the loaned shares of a particular stock in a Clearing Member's accounts, the Corporation will first return shares from the least preferred account (as designated by the Clearing Member) up to the total amount of loaned shares in that account and so on in accordance with the preferred account sequence.]

[.03 Interpretations and Policies .01 and .02 will be effective when the requisite systems are available, which is expected to occur in July, 2005.

04. Notwithstanding the provisions of clause (a)(iii) of Rule 2201, on and after March 1, 2009 no account of any Clearing Member may be designated as "margin-ineligible" and all stock loan and stock borrow positions must be carried on a margin-eligible basis. Accordingly, the requirement of Rule 2201(a)(iii) will become inoperative as of that date.]

Initiation of Stock Loans

RULE 2202. (a) [No change.]

(b) Upon receipt of a report from the Depository showing a completed stock loan, the Corporation shall (subject to Rule 2210(a)) accept such stock loan as a Stock Loan, unless the Corporation determines that the stock loan is not in accordance with the By-Laws and Rules or that one or both account numbers are invalid for Stock Loans; or that the information provided by the Depository contains errors or omissions, in which case the Corporation shall reject the stock loan. A stock loan that is not affirmatively rejected by notice to the initiating Hedge Clearing Members no later than a time specified by the Corporation from time to time shall be deemed accepted by the Corporation as a Stock Loan, and upon such acceptance the following shall automatically occur: (i) the stock loan contract between the lending Hedge Clearing Member and the borrowing Hedge Clearing Member that initiated the Stock Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Hedge Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Hedge Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Stock Loan, (iii) the initial deliveries of Loaned Stock against the settlement price in respect of each such contract shall be deemed to have been made and (iv) the lending Hedge Clearing Member shall be the

Lending Clearing Member and the borrowing Hedge Clearing Member shall be the Borrowing Clearing Member in respect of such Stock Loan for all purposes of the Rules. To the extent that the stock loan contract so extinguished included terms other than the terms that establish congruence, such terms shall be eliminated from the pair of congruent contracts constituting the Stock Loan and replaced by the By-Laws and Rules of the Corporation. A stock loan contract which is rejected by the Corporation shall remain effective as between the initiating Hedge Clearing Members. For purposes of the foregoing, a replacement stock loan contract shall be "congruent" to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that are to be lent and the settlement price. If, upon receipt of a notification from the Depository to reverse an initial delivery order received on the same day ("reclaim notification"), the Corporation determines that it is able to process the reclaim, the Corporation shall disregard the initial delivery order and such delivery order shall be deemed null and void and given no effect for purposes of the By-Laws and Rules. The Corporation shall have no obligation or liability to any Hedge Clearing Member in acting, or failing to act, in response to a reclaim notification from the Depository to reverse an initial delivery order, and in no event will the Corporation be obligated to act on a reclaim notification delivered later than close of business on the business day on which the initial delivery order was received.

(c) – (e) [No change.]

[(f) Prior to January 1, 2009, a Clearing Member shall not submit a Stock Loan transaction to the Corporation for clearance in a margin-ineligible account if the transaction would create a stock loan position or stock borrow position in a single eligible stock, aggregating across all margin-ineligible accounts of the Clearing Member, the notional value of which would exceed the Clearing Member's excess net capital. On and after January 1, 2009 a Clearing Member shall not be permitted to submit any Stock Loan transaction to the Corporation for clearance on a margin-ineligible basis.]

. . . Interpretations and Policies:

.01 The Corporation may make available to each Hedge Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new positions, transfers of positions, reclaim notifications, and returns. Such updated position information is considered provisional and informational only and is subject to revision at any time. Only the Stock Loan Mark to Market Activity Report may be relied upon as definitely reflecting a Hedge Clearing Member's final stock loan and borrow positions.

Margin Deposited with Corporation

RULE 2203. Each Hedge Clearing Member shall be required to maintain margin with the Corporation in respect of its [margin-eligible] stock loan positions and stock borrow positions. The amount of margin assets required to be deposited shall be as determined pursuant to Rule 601.

* * *

CHAPTER XXIIA Market Loan Program

* * *

Instructions to the Corporation

RULE 2201A. (a) In respect of stock loan and stock borrow transactions originated through a Loan Market and stock loan and stock borrow positions resulting from such transactions, a Market Loan Clearing Member shall provide standing instructions to the Corporation with respect to matters identified by the Corporation from time to time, including but not limited to (i) the account number of each account with the Depository in which such stock loan and stock borrow transactions are to be effected, (ii) the default account [or accounts] with the Corporation, which may be any of the Market Loan Clearing Member's accounts or sub-accounts thereof that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws, to[~~in~~] which [such] new stock loan and stock borrow positions are to be [carried] allocated in the absence of executable instructions of the Clearing Member to allocate the positions to a different account, and (iii) the account with the Corporation (which may be the Market Loan Clearing Member's firm account or its combined Market-Makers' account) from and to which mark-to-market payments, dividend equivalent payments and rebate payments are to be made. The Corporation may also permit a Market Loan Clearing Member to provide standing instructions with respect to other aspects of the Clearing Member's participation in the Market Loan Program. A Market Loan Clearing Member may revise its standing instructions, subject to the Corporation's notice requirements as in effect from time to time.

(b) A Market Loan Clearing Member may give the Corporation specific instructions from time to time which are contrary to its standing instructions with respect to the account (or sub-account thereof) to[~~in~~] which a particular stock loan or stock borrow position (either a new position or an existing position which the Clearing Member wishes to transfer to a different account) is to be [carried] allocated. With respect to a new position, in the absence of such specific instructions, or if the specific instruction is invalid for any reason, the position will be allocated to the Market Loan Clearing Member's default account.

. . . Interpretations and Policies:

.01 [In respect of stock loan and stock borrow positions resulting from Market Loans, a] At any time on any business day prior to the deadline specified by the Corporation, an eligible Market Loan Clearing Member may [allocate]transfer all or any portion of [such]an existing stock loan or stock borrow position[s] (including positions resulting from that day's activity) among its accounts by submitting an appropriate transfer instruction to the Corporation that designates the accounts and/or sub-accounts from and to which the positions shall be transferred. If a Market Loan Clearing Member's request for transfer exceeds the number of stock loan or stock borrow shares available in the account from which the shares will be transferred, then the transfer instruction will be rejected. [Each Market Loan Clearing Member shall give standing instructions specifying the sequence in which such stock loan and stock borrow positions are to be allocated among its accounts if it allocates more or fewer shares of a particular stock than its end-of-day loan or borrow position in that stock. If the total loan or borrow position in any stock allocated by the Clearing Member exceeds the total end of day loan or borrow position in that stock reported by the Depository to the Corporation, the Corporation will allocate the positions to each account up to the number of shares allocated to that account by the Clearing Member in accordance with the Clearing Member's preferred sequence of accounts. If the total loan or borrow position in any stock allocated by the Clearing Member is less than the total end of day loan or borrow position in that stock reported by the Depository to the Corporation, any excess shares will be allocated to the Clearing Member's default account.]

.02 In respect of stock loan and stock borrow positions resulting from Market Loans, returns of shares shall be reflected in the Market Loan Clearing Member's account or sub-account designated on a delivery order submitted by the Depository. If there are insufficient shares in the designated account to fulfill the return instruction, or if there is no account designated in the Depository delivery order, the excess shares to be returned shall be taken from the Clearing Member's default account. If there are insufficient shares in the default account to fulfill the return instruction, the remaining shares shall be rejected and the return instruction will be void to that extent.[if a Market Loan Clearing Member has identified a preferred account sequence for allocation of such stock loan and stock borrow positions on any business day, then in processing a return of fewer than all of the loaned shares of a particular stock in the Clearing Member's accounts, the Corporation will first attribute returned shares to positions carried in the least preferred account (as designated by the Clearing Member) up to the total amount of loaned shares represented by positions carried in that account and so on in accordance with the preferred account sequence.]

Initiation of Market Loans

RULE 2202A. (a) – (f) [No change.]

... Interpretations and Policies:

.01 The Corporation may make available to each Market Loan Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new positions, transfers of positions, returns and cancels. Such updated position information is considered provisional and informational only and is subject to revision at any time. Only the Stock Loan Mark to Market Activity Report may be relied upon as definitely reflecting a Market Loan Clearing Member's final stock loan and borrow positions.

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of OCC at a meeting held on May 22, 2012.

Questions regarding the proposed rule change should be addressed to Bruce C. Kelber, Vice President and Associate General Counsel, at (817) 562-3591.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to make certain technical changes to the By-Laws and Rules governing OCC's Stock Loan/Hedge Program and Market Loan Program (collectively, the "Programs") in order to make them consistent with recent system changes to the Programs and to delete certain terms and provisions that are no longer applicable.

Background

OCC's Stock Loan/Hedge Program is provided for in Article XXI of the By-Laws and Chapter XXII of the Rules, and provides a means for OCC clearing members to submit broker-to-broker stock loan transactions to OCC for clearance. Broker-to-broker transactions are

independently-executed stock loan transactions that are negotiated directly between two OCC clearing members. OCC's Market Loan Program, provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules, accommodates securities loan transactions executed through electronic trading platforms that match lenders and borrowers on an anonymous basis.

Anonymous stock loan transactions are initiated when a lender or borrower, who is either an OCC clearing member participating in the Market Loan Program or a non-clearing member who has a clearing relationship with an OCC clearing member participating in the Market Loan Program, accepts a bid/offer displayed on a trading platform. A clearing member participating in the Market Loan Program will be obligated to OCC as principal with respect to transactions effected by its customers that are non-clearing members of a trading platform.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction. OCC leverages The Depository Trust Company's ("DTC" or the "Depository") infrastructure to transfer loaned stock and collateral between OCC clearing members.

Recently, OCC performed a series of procedural changes and system enhancements designed to automate processes that had previously been performed manually and improve the allocation process for stock loan and borrow positions of OCC members who participate in the Stock Loan/Hedge Program and the Market Loan Program. For example, OCC has simplified the process in which stock loan positions are allocated or transferred across a clearing member's account structure. Clearing members now specify a "default" account into which stock loan and borrow positions are automatically allocated, and from which transfers and returns are processed, unless otherwise specified in an instruction submitted by the clearing member. Additionally, OCC now has the functionality to receive messages from DTC in real-time, including reclaim requests (*i.e.*, requests submitted by a lender or borrower to DTC to reverse an initial delivery order). Although OCC had previously processed such messages on a manual basis, system changes now enable OCC to automatically process reclaim requests received from DTC on a real-time basis throughout the day. As such, clearing members may now view their positions in real-time, and perform transfers throughout the day based on real-time position information. OCC system changes also provide clearing members with additional mark-to-market rounding flexibility, allowing clearing members to now round their mark-to-market pay and collect amounts to decimal amounts. Finally, the system changes provide clearing members the ability to use sub-accounting functionality that already exists for other products cleared by OCC. In particular, the use of sub-accounting functionality allows a clearing member to segregate individual accounts within its customer, firm, or market-maker ranges,

providing greater flexibility in how the clearing member manages individual account positions and margin requirements.

While these system changes and procedural changes increase the efficiency and accuracy of the processes by which stock loan and borrow transactions are processed and positions are maintained, they have no impact on the substantive rights or obligations of OCC or any clearing member. They are intended to permit clearing members to manage their stock loan and borrow transactions and positions in a more efficient manner. OCC seeks to amend its By-Laws and Rules to reflect these changes, as well as to remove certain terms and provisions which are no longer relevant.

Description of Rule Change

1. Designation of Accounts For Stock Loan Transactions And Transfers Between Accounts

The current versions of Rules 2201(a) and 2201A(a) describe a process by which clearing members provide OCC with standing instructions designating one or more accounts in which the clearing member's stock loan and borrow positions may be carried. These provisions of Rule 2201(a) and 2201A(a) need to be amended to conform with recent system changes to the Programs, as described in the Background section above. Under the system changes, clearing members are required to designate one default account, which can be any of the clearing member's accounts or sub-accounts thereof (*e.g.*, Customers', Firm, or Market Maker) that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws to hold stock loan and borrow positions, to which the Corporation can allocate new stock loan and borrow positions in

the absence of executable instructions from the clearing member to allocate the new positions to a different account. When a clearing member effects a new loan or borrow, the clearing member can designate an account (or a sub-account thereof) to which the position is to be allocated. If, however, there is no such designation, or the designation is invalid for any reason, the position is allocated to the default account. The clearing member may thereafter transfer stock loan or borrow positions among eligible accounts by submitting an appropriate instruction to OCC. The Corporation proposes to revise Rules 2201 and 2201A to make them consistent with this new system requirement.

Interpretation .01 under each of Rule 2201 and Rule 2201A provides details of the process by which a clearing member may transfer existing stock loan or borrow positions (in whole or in part) among its accounts and permits the clearing member to specify a sequence of accounts for the allocation by OCC of its positions if the clearing member attempts to transfer more or fewer shares than its end-of-day loan or borrow position. Under the new system, in connection with a transfer of an existing stock loan or borrow position, shares are taken from the account or sub-account specified by the clearing member. If there are not enough shares in a stock loan or borrow position in that account, the transfer instruction will be rejected. The Corporation proposes to revise Interpretation .01 under Rules 2201 and 2201A to make it consistent with this new system for processing transfers among accounts.

Interpretation .01 to each of Rule 2201 and Rule 2201A also currently uses the term “allocated” when describing how a clearing member can move positions among its accounts.

The Corporation proposes to make a technical change to these Interpretations to change the term “allocate” to “transfer” as “transfer” is a more accurate description that distinguishes the process from the initial “allocation” of a transaction to a designated account.

With respect to returns of stock, Interpretation .02 under each of Rule 2201 and Rule 2201A describes the current system which relies in part upon the sequence of accounts specified by a clearing member (referred to in the preceding paragraph) to allocate returns among the clearing member’s accounts with stock loan or borrow positions in the returned stock. Under the new system, returns are reflected in the clearing member’s account or sub-account specified on the original delivery order submitted by DTC. If there are not enough shares in the position in that account, the excess shares to be returned are reflected in the clearing member’s default account. If there are not enough shares in the applicable position in the default account, the remaining shares are rejected and the return instruction is void to that extent. If no account is designated in the DTC delivery order, then shares are taken from the clearing member’s default account and any excess shares are rejected and the return instruction is void to that extent. The Corporation proposes to amend Interpretation .02 under Rules 2201 and 2201A to reflect the new process.

2. *Reclaim Transactions*

Reclaim transactions are submitted to DTC by either the borrower (to reclaim new loans) or the lender (to reclaim returns) to reverse initial Delivery Orders (“DOs”) for a variety of reasons (*e.g.*, DK, wrong quantity, wrong security, wrong money). When DTC receives a

reclaim for a previously submitted Stock Loan/Hedge transaction, DTC attempts to match the reclaim to a DO from the same day. Previously, this process occurred throughout the day at DTC, and OCC received only a final positions file after all transactions were processed. As such, the end-of-day file received by OCC did not contain information about reclaims.

OCC now receives messages in real-time from DTC, which include reclaim transactions. Although OCC previously handled reclaim transactions manually, OCC's system changes now enable OCC to process reclaims systemically. More specifically, OCC system changes enable OCC to begin processing intra-day real-time messages, rather than end-of-day batch files. Under the new process: (i) if OCC receives a reclaim message, the system will attempt to match it to a new loan, borrow or return that occurred that same day and, if a match is found, the system will "bust" it (*i.e.*, void the original transaction); (ii) OCC will reject any attempted reclaim of a new loan, borrow or return done on a previous day; and (iii) OCC will reject reclaims that create excess shares (*i.e.*, not enough shares in the account to reduce). Rejected reclaims will not be processed, but will be provided to the clearing member through an on-demand report listing rejected reclaims, along with the basis for the rejection. In connection with reclaim transactions, OCC proposes to include provisions in the Rules to provide certain protections for OCC in the situation where DTC sends a notice to OCC to reverse an initial DO. Specifically, the Corporation proposes to add to Rule 2202(b) a provision that, if OCC determines that it is able to process a reclaim, OCC may disregard the initial DO and such DO shall be deemed null and void and given no effect for purposes of OCC's By-Laws and Rules. In addition, amended Rule

2202(b) would provide that OCC shall have no obligation or liability to any clearing member in acting, or failing to act, pursuant to a DTC notification to reverse an initial DO. OCC may not process a reclaim for various reasons, including but not limited to: (i) securities that are not eligible for stock loan transactions; (ii) invalid clearing member; or (iii) reclaim is received not on the same day as the initial delivery order. Finally, the Corporation proposes to add Interpretation .01 to Rule 2202 to provide that although the Corporation now makes updated stock loan and borrow position information available to each clearing member during a business day, such updated position information is considered provisional and informational only and is subject to revision at any time, and that only the official daily position report may be relied upon as definitely reflecting a clearing member's final stock loan and borrow positions because positions may be altered during the day, for example, to reflect reclaim transactions.

3. Margin-Ineligible Accounts and Stock Loan and Borrow Baskets

The current By-Laws and Rules contain references to “margin-ineligible” and “margin-eligible” accounts. As there are no longer any margin-ineligible accounts (*i.e.*, all stock loan and borrow positions are now included in margin calculations),¹ the Corporation proposes to remove references to “margin-ineligible” and “margin-eligible” accounts from the By-Laws and Rules.

The By-Laws and Rules also currently contain references to “stock loan baskets” and “stock borrow baskets.” As OCC no longer allows these products, the Corporation also proposes

¹ Securities Exchange Act Release No. 59036 (Dec. 1, 2008), 73 FR 74554 (Dec. 8, 2008) (SR-OCC-2008-06).

to remove references to “stock loan baskets” and “stock borrow baskets” from the By-Laws and Rules.

4. Receiver Authorized Delivery Processing

DTC has made changes to its systems such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to DTC’s Receiver Authorized Delivery (“RAD”) processing.² RAD is generally a control mechanism that DTC employs that allows users to review and either approve or cancel incoming deliveries before they are processed to avoid reclamations. DTC’s system establishes a minimum RAD limit of \$15 million for delivery orders, and each firm is responsible for setting its own RAD limits (dollar amounts) for each counterparty so that a delivery with a settlement value exceeding the specified limit will not be processed until approved. If a firm elects not to set limits, the default limit of \$15 million will be applied. To ensure that deliveries in the Market Loan Program flowed through to OCC unimpeded, OCC adopted Interpretation .07A under Article V, Section 1 of the By-Laws. This provision requires each clearing member that is a Market Loan Participant to set its RAD limit to the highest level permitted under DTC’s rules. DTC has made system changes such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to RAD processing. Accordingly, all transactions will flow through unimpeded without the need

² Securities Exchange Act Release No. 66179 (Jan. 18, 2012), 77 FR 3531 (Jan. 24, 2012) (SR-DTC-2011-08).

for Market Loan Participants to set RAD limits.³ Thus, there is no longer any need for the provision in Interpretation .07A under Article V, Section 1 of the By-Laws that requires Market Loan Participants to set RAD limits, and the Corporation proposes that it be removed.

* * *

The proposed changes to OCC's Rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934 ("Act")⁴ and the rules and regulations thereunder because they are designed to promote the prompt and accurate clearance and settlement of stock loan and borrow transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions⁵ by automating processes that had previously been performed manually and improving the allocation process for stock loan and borrow positions of OCC members. The proposed rule change is not inconsistent with the existing rules of OCC, including any rules proposed to be amended.

3 Exclusion of Market Loan Program transactions from RAD limits will in no way impede OCC's ability to manage risk of stock loan and borrow positions because OCC never relied on the DTC RAD limits as a risk management tool.

4 15 U.S.C. 78q-1.

5 15 U.S.C. 78q-1(b)(3)(F).

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Item 5. 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.

Item 6. Extension of Time Period for Commission Action

Not applicable.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

OCC is filing the proposed rule change for immediate effectiveness pursuant to Section 19(b)(3)(A)(iii) of the Act⁶ and paragraph (f)(4)(i) of Rule 19b-4⁷ thereunder on the basis that the proposed rule change effects a change in an existing service of a registered clearing agency that does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and does not significantly affect the

6 15 U.S.C. 78s(b)(3)(A)(iii).

7 17 CFR 240.19b-4(f)(4)(i).

respective rights or obligations of the clearing agency or persons using the service. In accordance with the regulations of the CFTC, OCC will not implement the rule change prior to the 10th business day after the date of filing.

Item 8. Proposed Rule Change Based on Rules for Another Regulatory Organization or of the Commission

The proposed rule change is not based on a rule change of another self-regulatory organization.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1A Completed notice of proposed rule change for publication in the Federal Register.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: 

Bruce C. Kelber
Vice President and
Associate General Counsel

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-____; File No. SR-OCC-2012-24)

December 13, 2012

Clearing Agency; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Its By-Laws and Rules Consistent with Recent System Changes to the Stock Loan/Hedge Program and Market Loan Program and Delete Certain Terms and Provisions No Longer Applicable

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 December 13, 2012, 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. 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 make its By-Laws and Rules consistent with recent system changes to the Stock Loan/Hedge Program and Market Loan Program and delete certain terms and provisions that are no longer applicable.

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

2 17 CFR 240.19b-4.

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 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

The purpose of the proposed rule change is to make certain technical changes to the By-Laws and Rules governing OCC's Stock Loan/Hedge Program and Market Loan Program (collectively, the "Programs") in order to make them consistent with recent system changes to the Programs and to delete certain terms and provisions that are no longer applicable.

Background

OCC's Stock Loan/Hedge Program is provided for in Article XXI of the By-Laws and Chapter XXII of the Rules, and provides a means for OCC clearing members to submit broker-to-broker stock loan transactions to OCC for clearance. Broker-to-broker transactions are independently-executed stock loan transactions that are negotiated directly between two OCC clearing members. OCC's Market Loan Program, provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules, accommodates securities loan transactions executed through electronic trading platforms that match lenders and borrowers on an anonymous basis.

Anonymous stock loan transactions are initiated when a lender or borrower, who is either an OCC clearing member participating in the Market Loan Program or a non-clearing member who

has a clearing relationship with an OCC clearing member participating in the Market Loan Program, accepts a bid/offer displayed on a trading platform. A clearing member participating in the Market Loan Program will be obligated to OCC as principal with respect to transactions effected by its customers that are non-clearing members of a trading platform.

Where a stock loan transaction is submitted to, and accepted by, OCC for clearance, OCC substitutes itself as the lender to the borrower and the borrower to the lender, thus serving a function for the stock loan market similar to the one it serves within the listed options market. OCC thereby guarantees the future daily mark-to-market payments between the lending clearing member and borrowing clearing member, which are effected through OCC's cash settlement system, and the return of the loaned stock to the lending clearing member and the collateral to the borrowing clearing member, upon close-out of the stock loan transaction. OCC leverages The Depository Trust Company's ("DTC" or the "Depository") infrastructure to transfer loaned stock and collateral between OCC clearing members.

Recently, OCC performed a series of procedural changes and system enhancements designed to automate processes that had previously been performed manually and improve the allocation process for stock loan and borrow positions of OCC members who participate in the Stock Loan/Hedge Program and the Market Loan Program. For example, OCC has simplified the process in which stock loan positions are allocated or transferred across a clearing member's account structure. Clearing members now specify a "default" account into which stock loan and borrow positions are automatically allocated, and from which transfers and returns are processed, unless otherwise specified in an instruction submitted by the clearing

member. Additionally, OCC now has the functionality to receive messages from DTC in real-time, including reclaim requests (*i.e.*, requests submitted by a lender or borrower to DTC to reverse an initial delivery order). Although OCC had previously processed such messages on a manual basis, system changes now enable OCC to automatically process reclaim requests received from DTC on a real-time basis throughout the day. As such, clearing members may now view their positions in real-time, and perform transfers throughout the day based on real-time position information. OCC system changes also provide clearing members with additional mark-to-market rounding flexibility, allowing clearing members to now round their mark-to-market pay and collect amounts to decimal amounts. Finally, the system changes provide clearing members the ability to use sub-accounting functionality that already exists for other products cleared by OCC. In particular, the use of sub-accounting functionality allows a clearing member to segregate individual accounts within its customer, firm, or market-maker ranges, providing greater flexibility in how the clearing member manages individual account positions and margin requirements.

While these system changes and procedural changes increase the efficiency and accuracy of the processes by which stock loan and borrow transactions are processed and positions are maintained, they have no impact on the substantive rights or obligations of OCC or any clearing member. They are intended to permit clearing members to manage their stock loan and borrow transactions and positions in a more efficient manner. OCC seeks to amend its By-Laws and Rules to reflect these changes, as well as to remove certain terms and provisions which are no longer relevant.

Description of Rule Change

1. Designation of Accounts For Stock Loan Transactions And Transfers Between Accounts

The current versions of Rules 2201(a) and 2201A(a) describe a process by which clearing members provide OCC with standing instructions designating one or more accounts in which the clearing member's stock loan and borrow positions may be carried. These provisions of Rule 2201(a) and 2201A(a) need to be amended to conform with recent system changes to the Programs, as described in the Background section above. Under the system changes, clearing members are required to designate one default account, which can be any of the clearing member's accounts or sub-accounts thereof (*e.g.*, Customers', Firm, or Market Maker) that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws to hold stock loan and borrow positions, to which the Corporation can allocate new stock loan and borrow positions in the absence of executable instructions from the clearing member to allocate the new positions to a different account. When a clearing member effects a new loan or borrow, the clearing member can designate an account (or a sub-account thereof) to which the position is to be allocated. If, however, there is no such designation, or the designation is invalid for any reason, the position is allocated to the default account. The clearing member may thereafter transfer stock loan or borrow positions among eligible accounts by submitting an appropriate instruction to OCC. The Corporation proposes to revise Rules 2201 and 2201A to make them consistent with this new system requirement.

Interpretation .01 under each of Rule 2201 and Rule 2201A provides details of the process by which a clearing member may transfer existing stock loan or borrow positions (in

whole or in part) among its accounts and permits the clearing member to specify a sequence of accounts for the allocation by OCC of its positions if the clearing member attempts to transfer more or fewer shares than its end-of-day loan or borrow position. Under the new system, in connection with a transfer of an existing stock loan or borrow position, shares are taken from the account or sub-account specified by the clearing member. If there are not enough shares in a stock loan or borrow position in that account, the transfer instruction will be rejected. The Corporation proposes to revise Interpretation .01 under Rules 2201 and 2201A to make it consistent with this new system for processing transfers among accounts.

Interpretation .01 to each of Rule 2201 and Rule 2201A also currently uses the term “allocated” when describing how a clearing member can move positions among its accounts. The Corporation proposes to make a technical change to these Interpretations to change the term “allocate” to “transfer” as “transfer” is a more accurate description that distinguishes the process from the initial “allocation” of a transaction to a designated account.

With respect to returns of stock, Interpretation .02 under each of Rule 2201 and Rule 2201A describes the current system which relies in part upon the sequence of accounts specified by a clearing member (referred to in the preceding paragraph) to allocate returns among the clearing member’s accounts with stock loan or borrow positions in the returned stock. Under the new system, returns are reflected in the clearing member’s account or sub-account specified on the original delivery order submitted by DTC. If there are not enough shares in the position in that account, the excess shares to be returned are reflected in the clearing member’s default account. If there are not enough shares in the applicable position in the default account, the

remaining shares are rejected and the return instruction is void to that extent. If no account is designated in the DTC delivery order, then shares are taken from the clearing member's default account and any excess shares are rejected and the return instruction is void to that extent. The Corporation proposes to amend Interpretation .02 under Rules 2201 and 2201A to reflect the new process.

2. *Reclaim Transactions*

Reclaim transactions are submitted to DTC by either the borrower (to reclaim new loans) or the lender (to reclaim returns) to reverse initial Delivery Orders ("DOs") for a variety of reasons (*e.g.*, DK, wrong quantity, wrong security, wrong money). When DTC receives a reclaim for a previously submitted Stock Loan/Hedge transaction, DTC attempts to match the reclaim to a DO from the same day. Previously, this process occurred throughout the day at DTC, and OCC received only a final positions file after all transactions were processed. As such, the end-of-day file received by OCC did not contain information about reclaims.

OCC now receives messages in real-time from DTC, which include reclaim transactions. Although OCC previously handled reclaim transactions manually, OCC's system changes now enable OCC to process reclaims systemically. More specifically, OCC system changes enable OCC to begin processing intra-day real-time messages, rather than end-of-day batch files. Under the new process: (i) if OCC receives a reclaim message, the system will attempt to match it to a new loan, borrow or return that occurred that same day and, if a match is found, the system will "bust" it (*i.e.*, void the original transaction); (ii) OCC will reject any attempted reclaim of a new loan, borrow or return done on a previous day; and (iii) OCC will reject reclaims that create

excess shares (*i.e.*, not enough shares in the account to reduce). Rejected reclaims will not be processed, but will be provided to the clearing member through an on-demand report listing rejected reclaims, along with the basis for the rejection. In connection with reclaim transactions, OCC proposes to include provisions in the Rules to provide certain protections for OCC in the situation where DTC sends a notice to OCC to reverse an initial DO. Specifically, the Corporation proposes to add to Rule 2202(b) a provision that, if OCC determines that it is able to process a reclaim, OCC may disregard the initial DO and such DO shall be deemed null and void and given no effect for purposes of OCC's By-Laws and Rules. In addition, amended Rule 2202(b) would provide that OCC shall have no obligation or liability to any clearing member in acting, or failing to act, pursuant to a DTC notification to reverse an initial DO. OCC may not process a reclaim for various reasons, including but not limited to: (i) securities that are not eligible for stock loan transactions; (ii) invalid clearing member; or (iii) reclaim is received not on the same day as the initial delivery order. Finally, the Corporation proposes to add Interpretation .01 to Rule 2202 to provide that although the Corporation now makes updated stock loan and borrow position information available to each clearing member during a business day, such updated position information is considered provisional and informational only and is subject to revision at any time, and that only the official daily position report may be relied upon as definitely reflecting a clearing member's final stock loan and borrow positions because positions may be altered during the day, for example, to reflect reclaim transactions.

3. *Margin-Ineligible Accounts and Stock Loan and Borrow Baskets*

The current By-Laws and Rules contain references to “margin-ineligible” and “margin-eligible” accounts. As there are no longer any margin-ineligible accounts (*i.e.*, all stock loan and borrow positions are now included in margin calculations),³ the Corporation proposes to remove references to “margin-ineligible” and “margin-eligible” accounts from the By-Laws and Rules.

The By-Laws and Rules also currently contain references to “stock loan baskets” and “stock borrow baskets.” As OCC no longer allows these products, the Corporation also proposes to remove references to “stock loan baskets” and “stock borrow baskets” from the By-Laws and Rules.

4. *Receiver Authorized Delivery Processing*

DTC has made changes to its systems such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to DTC’s Receiver Authorized Delivery (“RAD”) processing.⁴ RAD is generally a control mechanism that DTC employs that allows users to review and either approve or cancel incoming deliveries before they are processed to avoid reclamations. DTC’s system establishes a minimum RAD limit of \$15 million for delivery orders, and each firm is responsible for setting its own RAD limits (dollar amounts) for each counterparty so that a delivery with a settlement value exceeding the specified limit will not be processed until approved. If a firm elects not to set limits, the default limit of \$15 million will be

³ Securities Exchange Act Release No. 59036 (Dec. 1, 2008), 73 FR 74554 (Dec. 8, 2008) (SR-OCC-2008-06).

⁴ Securities Exchange Act Release No. 66179 (Jan. 18, 2012), 77 FR 3531 (Jan. 24, 2012) (SR-DTC-2011-08).

applied. To ensure that deliveries in the Market Loan Program flowed through to OCC unimpeded, OCC adopted Interpretation .07A under Article V, Section 1 of the By-Laws. This provision requires each clearing member that is a Market Loan Participant to set its RAD limit to the highest level permitted under DTC's rules. DTC has made system changes such that transactions that OCC submits to DTC via the Market Loan Program will no longer be subject to RAD processing. Accordingly, all transactions will flow through unimpeded without the need for Market Loan Participants to set RAD limits.⁵ Thus, there is no longer any need for the provision in Interpretation .07A under Article V, Section 1 of the By-Laws that requires Market Loan Participants to set RAD limits, and the Corporation proposes that it be removed.

* * *

The proposed changes to OCC's Rules are consistent with the purposes and requirements of Section 17A of the Act⁶ and the rules and regulations thereunder because they are designed to promote the prompt and accurate clearance and settlement of stock loan and borrow transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions⁷ by automating processes that had previously been performed manually and improving the allocation process for stock loan and borrow positions of OCC members. The proposed rule change is not inconsistent with the

⁵ Exclusion of Market Loan Program transactions from RAD limits will in no way impede OCC's ability to manage risk of stock loan and borrow positions because OCC never relied on the DTC RAD limits as a risk management tool.

⁶ 15 U.S.C. 78q-1.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

existing rules of OCC, including any rules proposed to be amended.

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

OCC does not believe that the proposed rule change would impose any burden on competition that is not necessary or 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 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 upon filing pursuant to Section 19(b)(3)(A)(iii)⁸ of the Act and paragraph (f)(4)(i) of Rule 19b-4⁹ thereunder on the basis that the proposed rule change effects a change in an existing service of a registered clearing agency that does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. OCC will delay the implementation of the rule change until it is deemed certified under CFTC Regulation § 40.6. At any time within 60 days of the filing of such rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is

8 15 U.S.C. 78s(b)(3)(A)(iii).

9 17 CFR 240.19b-4(f)(4)(i).

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 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-2012-24 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2012-24. 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://www.theocc.com/about/publications/bylaws.jsp>. 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-2012-24 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.¹⁰

Kevin M. O'Neill
Deputy Secretary

Action as set forth recommended herein
APPROVED pursuant to authority delegated by
the Commission under Public Law 87-592.
For: Division of Trading and Markets

By: _____

Print Name: _____

Date: _____

10 CFR 200.30-3(a)(12).