OCC

October 11, 2012

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 SR-OCC-2012-17 A-1 Rule Certification

Dear Secretary Stawick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and Commodity Futures Trading Commission Regulation ("CFTC") 40.6, enclosed is a copy of the above-referenced amended rule filing submitted by The Options Clearing Corporation ("OCC"). This amended rule filing has been, or is concurrently being, submitted to the Securities and Exchange Commission (the "SEC" or "Commission") under the Securities Exchange Act of 1934 (the "Exchange Act"). The text of the amended rule filing is set forth in the enclosed filing. The date of implementation of the amended rule is the later of (i) 10 business days following receipt of the amended rule filing by the CFTC or (ii) the SEC's approval of the filing under the Exchange Act.

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

Explanation and Analysis

OCC hereby submits this partial amendment, constituting Amendment No.1, to its rule filing SR-OCC-2012-17 (and Advance Notice filing AN-OCC-2012-02), in which OCC proposes to amend its rules to accommodate the margining of segregated futures customer accounts on a gross basis, in compliance with Rule 39.13(g)(8)(i) (the "gross margin rule") of the CFTC, which goes into effect on Thursday, November 8, 2012. In order to facilitate industry-wide compliance with the gross-margin rule, and to avoid a mid-week compliance start date, OCC proposes to implement the rule changes described herein on Monday, November 5, 2012.

This partial amendment is being filed to accommodate a technical change to OCC's margin rule (Rule 601) to comply with CFTC Rule 39.13(g)(8)(i) and to respond to a recently received interpretation from CFTC staff. The technical change is designed to clarify that the requirement to collect gross margin as required under the gross margin rule applies to initial margin at OCC and not premium margin.

OCC reviewed the derivatives clearing organization core principles ("Core Principles") as set forth in the Commodity Exchange Act in relation to SR-OCC-2012-17 A-1. During the review, OCC identified the following Core Principles as potentially being impacted:

Risk Management (Core Principle D)

The proposed amendment to SR-OCC-2012-17 is designed to ensure that OCC will be in compliance with CFTC Rule 39.13(g)(8)(i) on or before November 8, 2012, which is the effective date for the new customer gross margin regulation.

Material proposed to be added in the amended rule filing is marked by double underlining. Additions as originally proposed are indicated by underlining and deletions are indicated by bold brackets. Additions being made in this amendment are indicated by double-underlining.

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 be 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.

Certification

OCC hereby certifies that the rule set forth at Item 1 of the enclosed 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,

Stephen Szarmack

Enclosure

PARTIAL AMENDMENT

The Options Clearing Corporation ("OCC" or the "Corporation") hereby submits this partial amendment, constituting Amendment No.1, to its rule filing SR-OCC-2012-17 (and Advance Notice filing AN-OCC-2012-02), in which OCC proposes to amend its rules to accommodate the margining of segregated futures customer accounts on a gross basis, in compliance with Rule 39.13(g)(8)(i) (the "gross margin rule") of the Commodity Futures Trading Commission ("CFTC"), which goes into effect on Thursday, November 8, 2012. In order to facilitate industry-wide compliance with the gross-margin rule, and to avoid a mid-week compliance start date, OCC proposes to implement the rule changes described herein on Monday, November 5, 2012. This partial amendment is being filed to accommodate a technical change to OCC's margin rule (Rule 601) to comply with CFTC Rule 39.13(g)(8)(i) and to respond to a recently received interpretation from CFTC staff. The technical change is designed to clarify that the requirement to collect gross margin as required under the gross margin rule applies to initial margin at OCC and not premium margin. Material proposed to be added to the rule filing as originally submitted is marked by double underlining.

Amendment to Item 1.

THE OPTIONS CLEARING CORPORATION

RULES

* * *

CHAPTER VI

MARGINS

* * *

Margin Requirements

RULE 601.

(a) – (d) [no changes]

<u>*(e) Calculation of Initial Margin on a Gross Basis for Segregated Futures Accounts.*</u>

<u>(1) For purposes of calculating the initial margin requirement for segregated futures accounts (including segregated futures professional accounts, internal non-proprietary cross-margining accounts and non-proprietary X-M accounts) pursuant to Section (c) of this Rule 601, such initial margin requirement shall equal the aggregate of the initial margin that would be required with respect to all customers of the Clearing Member if the positions of each such customer were treated as being the positions of a separate Clearing Member and held in separate Clearing Member accounts; provided that, for purposes of this calculation, initial margin assets and settlement obligations arising from the exercise, assignment, or maturity of cleared contracts</u>

shall not be attributed to such customers, but shall instead be accounted for as if such assets or obligations were attributable to their own separate sub-accounts and thereafter included in the calculation of gross initial margin at the Clearing Member level. Each Clearing Member shall submit to the Corporation on each business day, at or prior to the time specified by the Corporation, a data file that identifies the positions of each futures customer of the Clearing Member using a unique alphanumeric customer identifier for each such customer. Such identifiers shall not include any indication of the identity of any customer or other personal information of a customer.

(2) In the event that the records of the Corporation indicate that the Clearing Member has positions in cleared contracts in segregated futures accounts that are not reflected in the data file submitted by the Clearing Member pursuant to subparagraph (1) of this paragraph, the Corporation shall calculate a separate initial margin requirement with respect to all such positions as if such positions were the positions of a separate Clearing Member. The Corporation shall make such initial margin calculations using such adjustments as the Corporation deems necessary to ensure that each futures customer's positions within each segregated futures account are properly margined on a gross basis in accordance with applicable rules of the Commodity Futures Trading Commission.

[(e)](f) *Exclusions from Margin Requirement Calculation.* The following shall be excluded from the margin requirement calculation for any account pursuant to Rule 601(c), [or] (d), or (e):

(1) – (3) [no changes]

...Interpretations and Policies:

.01 – .02 [no changes]

.03 Notwithstanding the provisions of Rule 601, the Corporation may exclude positions in credit default options and credit default basket options in any account of a Clearing Member from the margin requirement calculations under paragraphs (c), [and] (d), and (e) of Rule 601. The margin requirement for excluded short positions in any series of credit default options or credit default basket options shall be a fixed amount determined by the Corporation based upon the maximum potential exercise settlement amount for such options as determined by the Corporation. Except to the extent that the Corporation determines otherwise, long positions in credit default options and credit default basket options shall be given no value for margin purposes and shall not offset margin requirements on short positions except to the extent that a Clearing Member carries unsegregated long positions and short positions in the same class of options in the same account.

.04 – .06 [no changes]

Amendment to Item 3.

The purpose of this proposed rule change is to provide for the calculation of initial margin for ~~margining of~~ OCC segregated futures customer accounts on a gross basis, as required by CFTC Rule 39.13(g)(8)(i).[1]

The CFTC's Customer Gross Margin Rule

On October 18, 2011, the CFTC issued final regulations implementing many of the new statutory core principles for CFTC-registered derivatives clearing organizations ("DCOs") enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As a registered DCO (as well as a registered securities clearing agency), OCC has previously implemented rule changes designed to bring OCC into compliance with CFTC rules applicable to DCOs that went into effect on January 9, 2012[2] and May 7, 2012.[3] OCC believes it is necessary to amend its Rules in order to ensure compliance with the gross margin rule, which requires a DCO to "collect initial margin on a gross basis for each clearing member's customer account(s) equal to the sum of the initial margin amounts that would be required by the derivatives clearing organization for each individual customer within that account if each individual customer were a clearing member"[4] as required by CFTC Rule 39.13(g)(8)(i). Part 39 of the CFTC's Rules does not provide a definition of the term "initial margin" that would be specifically applicable to Rule 39.13(g)(8)(i). However, CFTC Rule 1.3(ccc) defines "initial margin" as "money, securities, or property posted by a party to a futures, option, or swap as performance bond to cover potential future exposures arising from changes in the market value

[1] 17 CFR § 39.13(g)(8)(i).
[2] *See* SR-OCC-2011-18.
[3] *See* SR-OCC-2012-06.
[4] 77 FR at 69439.

of the position."[5] CFTC Rule 1.3 provides that terms used in Rule 1.3 "as used in the Commodity Exchange Act, or in the rules and regulations [of the CFTC], shall have the meanings . . . assigned to them, unless the context otherwise requires."[6] The gross margin rule goes into effect on November 8, 2012, however, OCC intends to begin complying with the gross margin rule on November 5, 2012 as described herein.

OCC's System for Calculating Margin

OCC currently calculates margin requirements for each clearing member's segregated futures customer account held at OCC on a net basis by applying OCC's System for Theoretical Analysis and Numerical Simulations ("STANS"). STANS calculates initial margin with respect to each account of a clearing member, including each clearing member's futures customer account(s), on a net basis. STANS includes both a net asset value ("NAV") component and a risk component, with the risk component being the equivalent of "initial margin" as that term is defined under CFTC Rules. The NAV component marks all positions to market and nets long and short positions to determine the NAV of each clearing member's portfolio of customer positions. The NAV component represents the cost to liquidate the portfolio at current prices by selling the net long positions and buying in the net short positions. The risk component is estimated by means of an expected shortfall risk measure obtained from "Monte Carlo" simulations designed to measure the additional asset value required in any portfolio to eliminate an unacceptable level of risk that the portfolio would liquidate to a deficit.

OCC presently lacks sufficient information about individual customer positions to calculate initial margin at the level of each individual customer. However, OCC has been coordinating with other DCOs to establish an industry-wide mechanism for complying with the

[5] 17 CFR § 1.3(ccc).
[6] 17 CFR § 1.3.

customer gross margin rule. Pursuant to this new system, each DCO's clearing members will submit data files to the DCO identifying positions by numerical customer identifiers.[7] OCC will use this information to calculate initial margins, using STANS, for each customer identifier of a clearing member and to aggregate those initial margin calculations to determine the total futures customer margin requirement for the clearing member's segregated futures customer account(s) held at OCC.[8] OCC will then compare the aggregate positions reported by each clearing member with its own records and make any needed adjustments to the initial margin calculation to ensure all positions on OCC's books are properly margined.

Proposed By-Law and Rule Changes

The proposed changes to OCC's Rules provide for the calculation of initial margin for segregated futures customer accounts on a gross basis and mandate submission of the clearing member data files necessary to allow OCC to calculate initial margin at the level of each futures customer. In the event that the data included in these data files is incomplete (for example, if OCC shows positions held in a clearing member's segregated futures accounts, but those positions are not reflected in the data file), OCC will create a separate sub-account to be used for initial margin calculation purposes only. Positions recorded on OCC's books and records, but not reflected in the data file, will be attributed to this sub-account and an initial margin amount

---

[7] The position data provided to OCC by clearing members will not include (a) information with respect to the allocation of margin assets to particular customers, nor (b) information with respect to settlement obligations arising from the exercise, assignment or maturity of cleared contracts. For this reason, OCC will treat all margin assets and settlement obligations for each account to which the gross margin rule applies as being in sub-accounts of the Clearing Member. OCC will calculate margin, using STANS, separately for each sub-account and will aggregate the calculated margin requirements at the level of the clearing member's segregated futures customer account to which the sub-accounts relate.

[8] OCC currently carries the following account types that are segregated pursuant to Section 4d of the Commodity Exchange Act: Segregated Futures Accounts, Segregated Futures Professional Accounts, non-Proprietary X-M accounts, and internal non-proprietary cross-margining accounts. All such accounts would be margined on a gross accounts, and internal non-proprietary cross-margining accounts. All such accounts would be margined on a gross basis under the proposed amendments to Rule 601.

will be calculated for the sub-account. This initial margin amount will be added to a clearing member's initial margin requirement. OCC has determined to adopt this conservative approach to dealing with discrepancies between its own records and clearing member data files in order to ensure that OCC does not collect an inadequate amount of initial margin from clearing members.

Amendment to Item 10.

OCC is filing this proposed rule change as an "advance notice" pursuant to Section 806(e)(2) of the Payment, Clearing, and Settlement Supervision Act of 2010 because it could be deemed to materially affect the nature or level of risks presented by OCC. On October 18, 2011, the CFTC adopted new rule 39.13(g)(8)(i), which will go into effect on November 8, 2012. As described above in Item 3, the CFTC's gross margin rule will require OCC to collect futures customer margin on a gross basis in compliance with CFTC Rule 39.13(g)(8)(i). This is expected to lead to an increase in the amount of margin OCC collects from its clearing members with respect to their segregated futures customer accounts held at OCC, as well as a corresponding decrease in OCC's default risk with respect to those accounts. This decreased risk may be material. While the amount of initial margin collected by OCC with respect to segregated futures customer accounts of clearing members will increase, the fundamental processes used by OCC to calculate such initial margin requirements will continue to rely on STANS, which OCC is not proposing to change as a result of the gross margin rule. OCC therefore does not expect that the nature of its risks with respect to segregated futures customer accounts will change, merely that the level of such risk will change.

The industry-wide effort to implement gross initial margining for segregated futures customer accounts could pose operational risks to OCC due to the complexities involved in the exchange of customer-level position data between clearing members and OCC and in ensuring that OCC is prepared to process the information received and incorporate it into its own margin calculations. Implementing the customer gross margin rule changes on November 8, 2012 (a Thursday) could also exacerbate the operational challenges involved in implementing customer gross margining. In order to mitigate these challenges, OCC and other DCOs have determined that it is advisable to implement these changes in advance of the CFTC's mandatory November 8, 2012 compliance date, on November 5, 2012 (a Monday). This is being done in coordination with other DCOs and in order to avoid a mid-week implementation date. As the Rule change described herein is mandated by regulations to which OCC is subject as a registered DCO, OCC has no discretion in whether to implement these Rule changes. Nevertheless, OCC believes that these Rule changes will not diminish OCC's ability to ensure the safeguarding of securities and funds in OCC's custody or control or for which OCC is responsible.