



Jean M. Cawley
Senior Vice President – Deputy General Counsel
Chief Compliance Officer

May 20, 2014

VIA ELECTRONIC MAIL

Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Filing SR-OCC-2014-12 Rule Certification

Dear Secretary Jurgens:

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 rule filing submitted by The Options Clearing Corporation (“OCC”). The date of implementation of the rule is at least 10 business days following receipt of the rule filing by the CFTC 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 this proposed rule change is to make OCC’s existing policy concerning concentrated margin deposits of certain issuers of letters of credit (“LC”) applicable to all LC issuers. Currently, OCC imposes concentration limits on clearing member margin deposits of LCs issued by certain non-U.S. institutions.¹ Specifically, OCC limits the concentration of a

¹ These concentration limits, however, are not currently applied to LCs issued by non-U.S. institutions that qualify as financial holding companies under Regulation Y or have an affiliate that is so qualified. In order to be deemed a financial holding company under Regulation Y, among other things, the institution must make certain certifications regarding the capitalization of the depository institutions controlled by the holding company. *See* OCC Rule 604, Interpretation and Policy .02. *See also* Securities Exchange Act Release No. 5037 (November 6, 2001), 66 FR 57143 (November 14, 2001) (SR-OCC-2001-03).

clearing member's margin deposits of LCs issued by such non-U.S. institutions to no more than 50% of a clearing member's total margin deposit at any given time, and no more than 20% of a clearing member's margin deposit may include an LC issued by any one of these non-U.S. institutions.²

OCC's Risk Committee recently requested a review of those aspects of OCC's risk management framework that are designed to mitigate the risks associated with accepting LCs for margin purposes, including the risk that an issuer of an LC will not honor its commitment to effect timely payment following an OCC demand therefor.³ Such review identified two instances in which over 50% of a clearing member's total margin on deposit was satisfied by LCs. OCC's Risk Committee determined this level of exposure to LCs to be excessive. Therefore, OCC proposes to make the existing concentration limits related to the deposit of LCs, as set forth in OCC Rule 604, Interpretation and Policy .02, applicable to all margin deposits of LCs regardless of issuer. As a result of this change, no more than 50% of a clearing member's margin on deposit may include LCs and no more than 20% of a clearing member's margin may include an LC from a single issuer. This proposed change is intended to reduce OCC's overall credit risk exposure to LCs deposited as margin by a single clearing member and the potential adverse consequences should an LC issuer not perform upon its payment commitment after receiving a demand for payment.

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

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

² *Id.*

³ Pursuant to the terms of the LCs accepted by OCC as well as OCC's Rules, issuers of LCs are required to satisfy any demand for payment within sixty minutes after receipt of such demand. *See* OCC Rule 604(c)(1).

OCC reviewed the derivatives clearing organization (“DCO”) core principles (“Core Principles”) as set forth in the Act. During this review, OCC identified the following Core Principles as potentially being impacted:

Risk Management. OCC believes that by implementing the proposed rule change it will be better able to manage the risks associated with discharging its responsibilities as a DCO as set forth in the DCO Core Principles because it will, through the use of appropriate limits on the composition of clearing member margin deposits, limit its exposure to potential losses from the default of clearing members who use LCs as a form of margin asset. In addition, the proposed rule change will make it less like that a defaulting clearing member’s margin assets would be unavailable to OCC thereby bettering ensuring that non-defaulting clearing members would not be exposed to losses from a defaulting clearing member.

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.

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
Vice President & Associate General Counsel

Enclosure

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”) proposes to amend Rule 604 in order to make OCC’s existing policy concerning specified concentration limits related to deposits of certain letters of credit applicable to all letters of credit. Material proposed to be added to OCC’s Rules as currently in effect is underlined. Material proposed to be deleted from OCC’s Rules as currently in effect is enclosed in bold brackets.

THE OPTIONS CLEARING CORPORATION**RULES**

* * *

CHAPTER VI**MARGINS**

* * *

Form of Margin Assets

RULE 604. [no change]

...Interpretations and Policies**.01** [no change]

.02 No more than 50% of a Clearing Member's margin on deposit at any given time may include letters of credit [issued by Non-U.S. Institutions] in the aggregate, and no more than 20% may include letters of credit issued by any one [Non-U.S.] institution. [The preceding sentence shall not apply to a Non-U.S. Institution (i) that has made an effective election to be treated as a "financial holding company" as set forth in Regulation Y of the Board of Governors of the Federal Reserve System or (ii) that is owned by or under the control of such a financial holding company.]

.03 - .15 [no change]

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved for filing with the Commission by OCC's Board of Directors at a meeting held on March 6, 2014.

Questions regarding the proposed rule change should be addressed to Stephen Szarmack, Vice President and Associate General Counsel, at (312) 322-4802.

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

A. Purpose

The purpose of this proposed rule change is to make OCC's existing policy concerning concentrated margin deposits of certain issuers of letters of credit ("LC") applicable to all LC issuers. Currently, OCC imposes concentration limits on clearing member margin deposits of LCs issued by certain non-U.S. institutions.¹ Specifically, OCC limits the concentration of a clearing member's margin deposits of LCs issued by such non-U.S. institutions to no more than 50% of a clearing member's total margin deposit at any given time, and no more than 20% of a clearing member's margin deposit may include an LC issued by any one of these non-U.S. institutions.²

¹ These concentration limits, however, are not currently applied to LCs issued by non-U.S. institutions that qualify as financial holding companies under Regulation Y or have an affiliate that is so qualified. In order to be deemed a financial holding company under Regulation Y, among other things, the institution must make certain certifications regarding the capitalization of the depository institutions controlled by the holding company. *See* OCC Rule 604, Interpretation and Policy .02. *See also* Securities Exchange Act Release No. 5037 (November 6, 2001), 66 FR 57143 (November 14, 2001) (SR-OCC-2001-03).

² *Id.*

OCC's Risk Committee recently requested a review of those aspects of OCC's risk management framework that are designed to mitigate the risks associated with accepting LCs for margin purposes, including the risk that an issuer of an LC will not honor its commitment to effect timely payment following an OCC demand therefor.³ Such review identified two instances in which over 50% of a clearing member's total margin on deposit was satisfied by LCs. OCC's Risk Committee determined this level of exposure to LCs to be excessive. Therefore, OCC proposes to make the existing concentration limits related to the deposit of LCs, as set forth in OCC Rule 604, Interpretation and Policy .02, applicable to all margin deposits of LCs regardless of issuer. As a result of this change, no more than 50% of a clearing member's margin on deposit may include LCs and no more than 20% of a clearing member's margin may include an LC from a single issuer. This proposed change is intended to reduce OCC's overall credit risk exposure to LCs deposited as margin by a single clearing member and the potential adverse consequences should an LC issuer not perform upon its payment commitment after receiving a demand for payment.

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

³ Pursuant to the terms of the LCs accepted by OCC as well as OCC's Rules, issuers of LCs are required to satisfy any demand for payment within sixty minutes after receipt of such demand. *See* OCC Rule 604(c)(1).

concerning LCs.

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

B. Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (the “Act”)⁴ because it will assure the safeguarding of securities and funds which are in the custody and control of OCC. In addition, the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions for which it is responsible. OCC believes that the proposed changes to its existing concentration limit policy for LCs, as described above, will reduce certain credit risks associated with the deposit by a clearing member of LCs as a form of margin asset and make it less likely that such margin asset would not be available to OCC should OCC need to use it to close-out positions of a defaulted clearing member. For the same reasons, the proposed rule change will promote confidence that OCC will be able to timely meet its settlement obligations because the changes to OCC’s concentration limit policy for LCs will reduce the likelihood that a percentage of a defaulting clearing member’s margin assets would not be available to OCC in the event of a clearing member default. The proposed rule change is not inconsistent with any rules of OCC, including any other rules proposed to be amended.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

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

OCC believes that the proposed rule change would impose a minimal burden on competition, and that such burden is appropriate in furtherance of the purposes of the Act.⁵ As stated above, this proposed rule change affects certain clearing members who deposit LCs as a form of margin asset at OCC because they would be required to modify their business practices and potentially incur certain costs in doing so. However, OCC believes that any burden imposed upon such clearing members is necessary in furtherance of the purposes of the Act and is minimal in nature. The proposed rule change will reduce OCC's credit exposure to those clearing members who deposit LCs as a form of margin asset thereby better ensuring that OCC safeguards the securities and funds in OCC's custody and control as well as promoting the prompt and accurate clearance and settlement of securities transactions for which OCC is responsible. In addition, OCC believes that the proposed rule change will have a minimal impact on its clearing members. LCs comprise less than one percent of OCC's total margin deposits and OCC anticipates that the proposed rule change will impact three clearing members, each of which has indicated that it is able to comply with the change without undue difficulty. Moreover, clearing members are able to deposit a large variety of asset types to satisfy their margin requirement at OCC including, but not limited to, common stocks, government securities and money market funds.

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

⁵ 15 U.S.C. 78q-1(b)(3)(I).

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

OCC does not consent to an extension of the time period for Commission action on the proposed rule change.

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

Not applicable.

Item 8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Not applicable.

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 caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION


By:  _____
Stephen Szarmack,
Vice President and Associate General
Counsel

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-[_____]; File No. SR-OCC-2014-12)

May 20, 2014

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder² notice is hereby given that on May 20, 2014, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared 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 amend Rule 604 in order to make OCC's existing policy concerning specified concentration limits related to deposits of certain letters of credit applicable to all letters of credit.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

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

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

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

⁴ *Id.*

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

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

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

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

2. Statutory Basis

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

⁶ 15 U.S.C. 78q-1(b)(3)(F).

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

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

⁷ 15 U.S.C. 78q-1(b)(3)(I).

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

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

Written comments on the proposed rule change were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commissions Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2014-12 on the subject line.

Paper Comments:

- Send paper comments in triplicate to 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-2014-12. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <http://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-2014-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated Authority.⁸

Kevin M. O'Neill
Deputy Secretary

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: _____

⁸ 17 CFR 200.30-3(a)(12).