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SECURITIES AND EXCHANGE COMMISSION
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April 3, 2018

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Related to The Options Clearing Corporation's Trade Acceptance and Novation Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on March 23, 2018, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change by OCC concerns modifications to OCC's By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to acceptance, novation and trade reporting; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC's current clearing processes.

The proposed amendments to OCC's By-Laws and Rules can be found in Exhibits 5A and 5B to the filing, respectively. Material proposed to be added to OCC's By-Laws and Rules as currently in effect is marked by underlining and material proposed to be

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

2 17 CFR 240.19b-4.

deleted is marked with strikethrough text. Because proposed Rules 403 through 406 in Chapter IV are new and are based on provisions relocated from Article VI of OCC's By-Laws, underlining and strikethrough text have been omitted with respect to those rules in order to enhance their readability.

All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.[3]

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

(1) Purpose

The purpose of this proposed rule change is to amend OCC's By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates[4] the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to trade reporting and novation; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC's current clearing processes.

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3 OCC's By-Laws and Rules can be found on OCC's public website: http://optionsclearing.com/about/publications/bylaws.jsp.

4 In this context, novation is the process through which OCC is substituted as the buyer to the seller and the seller to the buyer for each cleared contact.

Background

Acceptance and Novation Timing

Specifying a clear time at which OCC accepts transactions for clearance and settlement is important to Clearing Members because that is the time under OCC's By-Laws and Rules at which the following events occur: (1) OCC is substituted through novation as the central counterparty ("CCP") to each Clearing Member that was an initial party to the transaction; (2) the rights of the initial Clearing Member parties to the transaction become solely as against OCC; and (3) OCC becomes obligated to each Clearing Member in accordance with the By-Laws and Rules.[5] Acceptance of transactions is important to Clearing Members because, among other things, settlement obligations associated with transactions that OCC accepts and novates are generally guaranteed by OCC based upon certain financial safeguards it maintains as a CCP consistent with its responsibilities under the Act and relevant regulations thereunder.[6]

Current Acceptance and Novation of Confirmed Trades

Under OCC's current By-Laws and Rules, a user must parse through a number of definitions and provisions in various locations to identify that time at which acceptance and novation occur. The term Confirmed Trade is defined in OCC's By-Laws to include all of the products for which OCC currently provides clearance and settlement services, with the exception of certain Stock Loan[7] transactions. Under OCC's current By-Laws, a

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5 See, e.g., Article VI, Section 5 of the By-Laws.

6 See generally 15 U.S.C. 78q-1; 17 CFR 240.17Ad-22.

7 See Article I, Section 1.S.(21) of the By-Laws. The term Stock Loan may refer to either a Hedge Loan that is part of OCC's Stock Loan/Hedge Program or a Market Loan that is part of OCC's Market Loan Program. Matters regarding the acceptance and novation of these products is addressed separately below.

Confirmed Trade[8] is novated upon OCC's acceptance, but acceptance is not deemed to occur until a designated Commencement Time. Commencement Time is defined differently for different products that meet the definition of a Confirmed Trade, but Article VI, Section 5 of the By-Laws (regarding OCC's obligations) generally defines it as the time at which OCC makes available to Clearing Members a Daily Position Report reflecting the Confirmed Trade.[9] Pursuant to Article VI, Section 7 of the By-Laws (regarding the reporting of Confirmed Trades) this acceptance is subject to the condition that the Exchange or OTC Trade Source on which the transaction occurred has reported to OCC, during such times as OCC has prescribed, certain information regarding the Confirmed Trade and that such information passes OCC's initial validation checks.

Under Article VI, Section 8 of the By-Laws, OCC generally has no right (other than regarding certain types of Confirmed Trades discussed below) to reject a Confirmed Trade due to the failure of the Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. This means that transactions in most products that are Confirmed Trades will inevitably be accepted for clearing and novated at the Commencement Time simply due to the passage of time.[10] Therefore, most Confirmed

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8 Under OCC's By-Laws, a Confirmed Trade is defined as "a transaction for the purchase, writing, or sale of a cleared contract, or for the closing out of a long or short position in a cleared contract, that is (i) effected on or through the facilities of an Exchange and submitted to the Corporation for clearance or (ii) affirmed through the facilities of an OTC Trade Source and submitted to the Corporation for clearance."

9 This typically occurs at the end of each business day.

10 An Exchange or OTC Trade Source, however, may instruct OCC to disregard a transaction that it previously reported as a Confirmed Trade "because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By-Laws and Rules, or (iii) new or revised trade information

Trades are functionally novated under the current By-Laws and Rules upon proper submission to OCC for clearing.

Different Commencement Times and Rejection Rights for Certain Confirmed Trades

Certain categories of Confirmed Trades, however, are not subject to the general Commencement Time described above, and OCC retains certain rights to reject such transactions. Specifically, Article VI, Section 5 of the By-Laws excludes the products described below from the general Commencement Time and alternate definitions of Commencement Time are set forth as follows:

(1) Futures issued in exchange-for-physical transactions,[11] block trades,[12] or other trades designated as non-competitively executed – the time after the transaction is reported to OCC that OCC receives the first variation settlement payment;[13]

(2) Cross-rate FX options and FX index options – the time that is three hours following the settlement time of the Confirmed Trade in which such contract was purchased;[14] and

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was required to properly clear the transaction." See Article VI, Section 7 of the OCC By-Laws. This authority would be preserved and relocated into OCC's Rules in connection with the proposed changes described herein.

11 An exchange-for-physical transaction (or "EFP") is a transaction between two parties in which a futures contract on a commodity or security is exchanged for the actual physical good.

12 A block trade is a trade involving a large number of shares being traded at an arranged price between parties, outside of the open markets, in order to lessen the impact of such a large trade being made public.

13 See Article XII, Section 7 of the OCC By-Laws.

14 See Articles XX, Section 1 and XXIII, Section 1 of the OCC By-Laws.

(3) OTC Options (other than Backloaded OTC Options) – the time when a report of OCC's acceptance is made available to Clearing Members through OCC's clearing system.[15]

For Backloaded OTC Options, the transaction is not accepted until the Selling Clearing Member has met its regular morning settlement obligation on the business day following the reporting of the trade to OCC.[16]

In addition to the separate Commencement Times for these types of Confirmed Trades, OCC also currently has certain authority to reject such trades due to the failure of the Purchasing Clearing Member to pay an amount due to OCC at or before the applicable settlement time.[17] In contrast to most other types of Confirmed Trades, this means that OCC continues to have authority to reject these transactions even after they are properly submitted for clearing. OCC's authority to reject these types of Confirmed Trades arises under the following circumstances:

(1) Futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed – in the event OCC fails to receive any variation payment due in the accounts of the Clearing Members;[18]

(2) Cross-rate FX options and FX index options – in the event OCC fails to receive from the Purchasing Clearing Member premiums denominated in the proper trading currency in the account in which the transaction is effected;[19] and

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15 See Article VI, Section 5 of the OCC By-Laws.

16 Id.

17 See generally Article VI, Section 8 of the OCC By-Laws identifying these exceptions.

18 See Article XII, Section 7 of the By-Laws.

19 See Article XX, Section 5, Article XXIII, Section 7 of the By-Laws.

(3) Backloaded OTC Options – in the event the Selling Clearing Member does not meet its regular morning settlement obligation on the business day following the reporting of the trade to OCC.[20]

Proposed Changes to Acceptance and Novation Rules

Proposed Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades

To provide greater certainty and clarity to Clearing Members and other interested parties regarding the acceptance and novation timing for transactions that OCC clears and settles, OCC is proposing to amend the substance of Article VI, Section 5 of the By-Laws[21] to set forth a uniform acceptance and novation time for nearly all Confirmed Trades. As described in more detail below, OCC would retain exceptions from the uniform acceptance and novation time for Confirmed Trades in Backloaded OTC Options and Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed.

To accomplish this, OCC proposes to eliminate the concept of Commencement Time and instead deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC and the related position information has been recorded in OCC's clearing system (which occurs on a real-time basis).[22] This would,

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20 See Article VI, Section 8 of the By-Laws. In addition, OCC will not accept a Backloaded OTC Option for clearing if OCC receives it from the OTC Trade Source after 4 p.m. Central on the business day that is four business days prior to its expiration.

21 As described below under the heading *Reorganization,* OCC also proposes to relocate the provisions currently in Article VI, Section 5 of the By-Laws to Rules 401 and 404.

22 OCC notes that upon acceptance and recording of position information in OCC's ENCORE clearing system, Clearing Members have the ability to see the trades

however, be subject to the condition that the required transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures[23] and is provided to OCC at such time as OCC prescribes. OCC believes this change provides a more clear indication of the point after which OCC does not have authority to reject such transactions for clearing.[24] Eliminating the concept of Commencement Time also necessitates the deletion of the term from the defined terms that appear in Article I, Section 1 of the By-Laws and replacing all references to Commencement Time with references to the time at which OCC accepts a transaction for clearing. This change requires amendments to OCC's By-Laws, specifically, amendments to the Article I definition of "American; American-style," Article VI, Sections 5 and 6,[25] Section 12 of Article VI, and Section 7 of Article XII.

As part of this proposed rule change, OCC also proposes to clarify the trade information required to be submitted by the participant Exchange to OCC as a condition to acceptance and novation. For options transactions, Rule 401(a)(1)(i) would provide that these terms include: (a) the identity of the Purchasing Clearing Member and Writing Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker

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they are responsible for via position information screens in the ENCORE system and through real-time messaging.

23 All inbound trades to OCC are subject to coded validation of the required fields for trades. These fields contain the critical details of the trade. These details include, but are not limited to, the trade source, symbol, expiration, strike, call or put, quantity, price, and Clearing Member details of both sides of the trade.

24 As described above, an Exchange or OTC Trade Source would continue to have the authority to instruct OCC to disregard a Confirmed Trade. See supra 10.

25 As described in more detail below, OCC proposes to relocate Article VI, Sections 5 and 6 to Rules 401, 404 and 405 to help streamline and reorganize provisions addressing trade reporting and novation.

symbol; (i) the series/contract date; (j) whether the trade is a put or a call; (k) the strike price; (l) whether the trade is a purchase or a sale; (m) the account type; (n) the allocation indicator, if applicable; (o) the CMTA indicator, if applicable; (p) the Give-Up Clearing Member, if applicable; (q) the trade type, including, in the case of futures options, whether the transaction is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (r) in the case of OTC options transactions in a securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (s) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(1)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.[26]

For futures transactions, Rule 401(a)(2)(i) would provide that the required terms for acceptance and novation include: (a) the identity of the Purchasing Clearing Member and the Selling Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a purchase or a sale; (k) the account type; (l) the allocation indicator, if applicable; (m) the CMTA indicator, if applicable; (n) the Give-Up Clearing Member, if applicable; and (o) whether the trade is an exchange-for-physical or block trade or any other trade designated

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[26] OCC makes available to its participant Exchanges and Clearing Members the complete list of required and optional trade information in an inbound reference guide for Exchange trades.

by the futures market or security futures market reporting the trade as a non-competitively executed trade. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(2)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.

Reasons the Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades is Appropriate

OCC believes that using a uniform approach for nearly all Confirmed Trades regarding acceptance and novation and reducing the complexity of related provisions would provide significantly greater clarity and transparency in OCC's legal framework for Clearing Members and other interested parties concerning the point at which OCC does not have authority to reject a transaction after it has been properly submitted to and validated by OCC. As described above, amending OCC's By-Laws and Rules to provide that nearly all Confirmed Trades are accepted and novated upon proper submission functionally would not change the time at which OCC becomes obligated regarding such Confirmed Trades because, upon proper submission, OCC has no right today to reject such transactions due to the failure of a Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. OCC generally does not collect margin with respect to such Confirmed Trades until 9:00 a.m. Central the following business day,[27] and therefore OCC already faces this same credit risk between the acceptance of the Confirmed Trades and the time that it collects margin from Clearing Members. Accordingly, OCC believes that moving the novation time from the general

[27] See Article I, Section 1.S.(16) of the By-Laws (defining the term "settlement time" in respect of a Clearing Member's obligation to pay amounts owed to OCC).

Commencement Time to earlier in the day as described above – at the point of acceptance – would not alter the credit risk OCC faces with respect to such Confirmed Trades. In addition, OCC would continue to have the same authority that it does today to address any credit risk as necessary through intra-day margin collection.[28]

OTC Options that are not Backloaded OTC Options are not currently subject to the general Commencement Time; however, OCC believes that applying the uniform acceptance and novation time to those transactions is appropriate. This is because under the current approach, acceptance and the Commencement Time both occur when a report is made available to Clearing Members within OCC's clearing system, and therefore this approach is already consistent with the proposed approach described herein. In practice, OCC automatically makes a report available to Clearing Members in its clearing system regarding an OTC Option provided that it is properly reported to OCC, the contract passes OCC's validation process, and the contract is not rejected. All of this is generally completed immediately upon submission and therefore OCC does not believe there is any operational, risk management, or other reason for excluding OTC Options that are not Backloaded OTC Options from the proposed uniform acceptance and novation timing.[29]

Proposed Exceptions to the Uniform Acceptance and Novation Timing

For other categories of Confirmed Trades that are not subject to the general definition of Commencement Time, OCC proposes to preserve the existing structure under which OCC has authority to reject the transactions even after they are properly submitted for clearing. An exception to the uniform acceptance and novation timing

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28 See OCC Rule 609 (addressing OCC's authority to require intra-day margin).

29 See Securities Exchange Act Release No. 68434 (December 14, 2012), 77 FR 75243 (December 19, 2012) (SR-OCC-2012-14 and AN-OCC-2012-01) (discussing the trade submission mechanics for OTC Options).

would be made for Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed. OCC believes that delayed novation is still appropriate for such non-competitively executed transactions because there is a heightened risk that non-competitive execution may cause them to be effected at off-market prices, which could lead to significant losses if a Clearing Member defaults on the related settlement obligations.[30]

As proposed, an exception to the uniform acceptance and novation timing would also be made for Confirmed Trades that are Backloaded OTC Options, which are defined as OTC Options for which the premium payment date is prior to the business day on which the transaction is submitted to OCC for clearing.[31] OCC believes an exception for Backloaded OTC Options remains necessary because of their "backloaded" nature, which means that the premium payment has already been made. In addition, Backloaded OTC Options are subject to being non-competitively executed and therefore present the same heightened settlement default risk that is discussed above regarding other non-competitively executed transactions. However, in contrast to those other types of non-competitively executed transactions, OCC is not able to immediately validate a Backloaded OTC Options transaction or check its price reasonability upon submission.

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30 OCC also proposes to add new Interpretation and Policy .05 to provide that OCC will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to OCC that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to OCC to be executed at a reasonable price and that such price is validated by the Exchange. This new Interpretation and Policy to Rule 401 would reiterate current Interpretation and Policy .04 to Article XII, Section 7 of the By-Laws to provide additional clarity in the Rules around the acceptance and novation time for competitively executed EFPs and block trades.

31 See Article I, Section 1.B.(1) of the OCC By-Laws.

Therefore, OCC believes it remains appropriate to delay acceptance and novation for these contracts until the selling Clearing Member has met its regular morning settlement obligations on the business day following trade reporting.

Provisional Information Regarding Confirmed Trades

OCC proposes that its acceptance and novation time would no longer be tied to publication of a Daily Position Report as OCC's acceptance of a Confirmed Trade would instead be reflected in the position information that OCC makes available to Clearing Members throughout the business day. OCC therefore proposes to amend Interpretation and Policy .01 to Rule 501 to: (1) clarify that OCC makes updated position data reflecting accepted and novated trades available to its Clearing Members throughout the day; and (2) remove from that provision a statement that Clearing Members must rely on the Daily Position Report for definitive information regarding their positions.

Hedge Loans and Market Loans

In addition to its clearance and settlement of Confirmed Trades, OCC also acts as a CCP for certain stock lending transactions that are part of its Stock Loan/Hedge Program and Market Loan Program. OCC proposes to amend its Stock Loan/Hedge Program and Market Loan Program Rules to better describe OCC's process for accepting Hedge Loans and Market Loans and to appropriately harmonize certain provisions governing each type of Stock Loan.[32]

Hedge Loans are initiated as stock lending transactions that are negotiated and settled between Clearing Members at The Depository Trust Company ("Depository") before they are reported to OCC. Rule 2202(b) provides that OCC must generally accept

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[32] See OCC Rules 2202(b); 2202A(b), (c).

these stock lending transactions upon receipt of a report from the Depository that shows a completed transaction.[33] However, OCC *may* reject a transaction if it determines that it is: (1) not in accordance with OCC's By-Laws or Rules; (2) one or both account numbers specified are invalid for Hedge Loans; or (3) the information provided by the Depository contains errors or omissions. Moreover, Rule 2202(b) provides that if OCC does not affirmatively reject a reported transaction by such a time as OCC is authorized to specify from time to time then the transaction is deemed accepted as a Hedge Loan. Upon acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member. Although OCC has discretion during each business day to make provisional information available to Clearing Members regarding their lending and borrowing activity, only the Stock Loan Mark to Market Activity Report is recognized as providing definitive Hedge Loan positions.[34]

OCC proposes to amend Rule 2202(b) to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day and would delete the statement that a transaction is deemed accepted by a particular cut off time if OCC does not affirmatively notify Clearing Members of a rejection. Rule 2202(b) would instead state that OCC generally accepts completed transactions reported to it unless: (1) OCC is otherwise required to reject a transaction because it is not in accordance with the By-Laws or Rules; (2) one or both account numbers specified are invalid; or (3) the information provided contains unresolved errors or omissions. OCC believes these changes would help clarify the time at which Hedge Loans are accepted and the specific

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33 OCC is not obligated to accept the stock lending transactions of a Clearing Member that has been suspended by the Depository. See OCC Rule 2210(a). The same condition applies regarding Market Loans. See OCC Rule 2210A(a).

34 See Rule 2202, Interpretation and Policy .01.

circumstances in which Hedge Loans will be rejected. As described below, the change would also ensure consistency between parallel provisions in the Stock Loan/Hedge Program and Market Loan Program regarding the initiation process that OCC believes should apply equally. Finally, a reference to the Stock Loan Market to Market Activity Report being the only definitive statement of positions would be deleted because Hedge Loan positions would be definitive upon acceptance in OCC's clearing system.

In connection with the Market Loan Program initiation process, the Depository also sends information to OCC regarding completed stock lending transactions. Rule 2202A(b) provides that upon OCC's receipt of an end of day stock loan activity file from the Depository OCC must accept the transactions as Market Loans unless it is required to reject them for the same reasons described above concerning Hedge Loans. The Rule further provides that, upon OCC's affirmative acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member.

As with the proposed changes to the Stock Loan Hedge Program, OCC proposes to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day. OCC also proposes to delete a reference to affirmative acceptance in Rule 2202A(b) because the other proposed changes would clarify that acceptance will generally take place automatically unless OCC is specifically required to reject transactions due to the deficiencies described above. A conforming change would also be made in this regard in Rule 2202A(c). References to the definitive nature of the Stock Loan Mark to Market Activity Report would be deleted for the same reasons described above regarding Hedge Loans.

Streamlining and Reorganization

As part of its continued efforts to streamline its By-Laws and Rules, OCC proposes to relocate certain provisions from Article VI, Sections 4 through 8 of the By-Laws to Chapter IV of the Rules. This would promote a centralized location for provisions that address trade reporting and novation. OCC also proposes to consolidate certain provisions in Chapter IV of the Rules to eliminate redundancy. These proposed organizational changes are summarized below.

Article VI, Section 4 of OCC's By-Laws regarding a Purchasing Clearing Member's obligations with respect to a Confirmed Trade would be relocated, without amendment, to a new Rule 403. Article VI, Section 5 of the By-Laws regarding OCC's obligations with respect to a Confirmed Trade would be amended, as described above, and incorporated into existing Rule 401 and new Rule 404. Article VI, Section 6 of the By-Laws regarding the issuance of cleared contracts would be amended as described above and relocated to a new Rule 405. Article VI, Section 7 of the By-Laws regarding the reporting of confirmed trades would be relocated and incorporated into Rule 401. More specifically, Article VI, Section 7(b) of the By-Laws would become Rule 401(e), Section 7(c) would become Rule 401(f), and Interpretation and Policy .01 to Section 7 would become Interpretation and Policy .03 to Rule 401. Article VI, Section 8 of the By-Laws regarding payments made to OCC would be amended as described above and relocated to new Rule 406. To accommodate these new rules in Chapter IV, current Rule 403 would be renumbered as 407, and current Rule 405 would be renumbered as Rule 408. Cross-references would also be updated to reflect this renumbering throughout Chapter IV of the Rules, as well as in Article I, Section 1.G.(3) and (4), Article VI,

Section 2, and Article XVII, Sections 2(a) and 2(c)(1) of the By-Laws, and Rules 504(e), 504(g), and 611(a).

Additionally, OCC proposes to delete existing Rule 404 regarding the reporting of confirmed trades in OTC Options and to incorporate its substance into Rule 401 in order create a more centralized trade reporting rule. This incorporation of Rule 404 into Rule 401 would require the addition of references to OTC Trade Sources in Rule 401(a) and (b), and the merger of language from Rule 404(b) into Rule 401(b) and from Rule 404(c) into Rule 401(d).

Elimination of Dormant Products and Rules

OCC proposes to delete certain provisions from its By-Laws and Rules that only apply to cross-rate foreign currency options and flexibly-structured index options denominated in a foreign currency because OCC no longer clears and settles such products. These products, when they were still actively cleared and settled, were subject to delayed novation, so OCC believes eliminating the rules governing these products at this time would reduce confusion related to the adoption of the proposed changes described herein concerning trade acceptance and novation timing. Consequently, OCC proposes to delete Articles XX and XXIII of its By-Laws and Chapters XXI and XXIV of its Rules, which govern each of those products, respectively. Additionally, OCC proposes to eliminate all other references to such products throughout its By-Laws and Rules, including in Section 1(d) of Article V, and Interpretation and Policy .03 to Section 1 of Article V of the By-Laws and Rules 607, 1107(a)(3) and 1107(a)(4), as well as in the definitions of Option Contract, Trading Currency and Underlying Currency in Article I of the By-Laws.

OCC also proposes to delete Rule 402 concerning the supplementary reporting of Confirmed Trades. Under Rule 402, in certain extraordinary circumstances, OCC may in its discretion accept from an Exchange after the cut-off time for receiving Confirmed Trade information for a particular business day ("trade date") supplementary Confirmed Trade information reflecting the comparison of additional trades executed on or before the trade date that remained unconfirmed at the cut-off time. Rule 402 was adopted at a time when OCC received matched trade information from Exchanges for a given trade date in a single batch submission after the close of the trading day.[35] Under this old process, trades that remained unmatched when an Exchange prepared its nightly trade tape to OCC were omitted from the tape and, if a trade was subsequently matched, the Exchange reported the trade to OCC the following night to be processed as if it had not been executed until the date when it was reported. Rule 402 was adopted to accommodate the late submission of trades that had not been matched in time to be submitted on the Exchange's original trade tape, thereby allowing those trades to be processed as if they were submitted on their original trade date. OCC is proposing to delete Rule 402 because it is no longer applicable to OCC's current clearing processes, whereby OCC continuously receives matched trade information from Exchanges on a real-time basis.

(2) Statutory Basis

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35 See Filing and Order Granting Accelerated Approval of Proposed Rule Change of Options Clearing Corporation, Securities Exchange Act Release No. 21233 (August 10, 1984) (SR-OCC-84-12).

Section 17A(b)(3)(F) of the Act[36] requires, among other things, that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, protect investors and the public interest. The proposed rule change is intended to provide a clear and uniform acceptance and novation time for nearly all Confirmed Trades and to clarify the acceptance and novation timing regarding Stock Loans by creating greater certainty regarding the time at which novation occurs and such Confirmed Trades and Stock Loans may no longer be rejected by OCC. Under the newly proposed uniform acceptance time, OCC would deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC, provided that the transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures and is provided to OCC at such time as OCC prescribes. In addition, the proposed rule change also would eliminate certain dormant rules that are no longer applicable to OCC's clearance and settlement services and processes. As a result, OCC believes that the proposed rule change would provide greater clarity and transparency to Clearing Members, other users of OCC, and the general public regarding OCC's processes for the reporting of transactions, acceptance, and novation. OCC therefore believes that the proposed rule change is designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of

[36] 15 U.S.C. 78q-1(b)(3)(F).

securities and derivatives transactions, and, in general, protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.[37]

In addition, Rule 17Ad-22(e)(1)[38] requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. First, the proposed rule change would provide a clear and uniform time regarding OCC's acceptance and novation for nearly all Confirmed Trades and clarify OCC's acceptance and novation process regarding Stock Loans. Achieving this outcome by, among other things, eliminating the use of the term Commencement Time and the current structure in which users must parse through a number of By-Law and Rule provisions to identify the time at which novation occurs would help ensure that OCC has a well-founded, clear, transparent, and enforceable legal basis regarding the rights and obligations of OCC and Clearing Members in respect of the reporting of transactions, acceptance, and novation. Second, OCC also believes that the proposal to streamline and reorganize provisions concerning transaction reporting, acceptance, and novation is consistent with Rule 17Ad-22(e)(1)[39] because consolidating them in Chapter IV of the Rules would promote readability and therefore allow the provisions to be more easily understood. OCC believes this same purpose of promoting clarity and readability would also be furthered by eliminating By-Law and Rule

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37 Id.

38 17 CFR 240.17Ad-22(e)(1).

39 Id.

provisions that concern certain dormant products that are no longer cleared and settled by OCC or that concern processes no longer supported by OCC.

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

Section 17A(b)(3)(I) of the Act[40] requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would impact or impose any burden on competition. The proposed rule change is designed to provide more clarity and transparency to, and therefore foster cooperation and coordination among, Clearing Members, other users of OCC, and the general public regarding OCC's processes regarding the reporting of transactions, acceptance and novation. This proposed rule change would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and it would be applied uniformly to all Clearing Members. For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies and would not impact or impose a burden on competition.

(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

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40 15 U.S.C. 78q-1(b)(3)(I).

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 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-2018-007 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2018-007. 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 Room, 100 F Street, NE, 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 https://www.theocc.com/about/publications/bylaws.jsp.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2018-007 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[41]

Eduardo A. Aleman,
Assistant Secretary.

[41] 17 CFR 200.30-3(a)(12).

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