

*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](mailto:rule-comments@sec.gov). Please include File No. SR-NYSEArca-2007-19 on the subject line.

*Paper Comments*

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

All submissions should refer to File No. SR-NYSEArca-2007-19. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of NYSE Arca. 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 No. SR-NYSEArca-2007-19 and should be submitted on or before March 26, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>15</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-3745 Filed 3-2-07; 8:45 am]

**BILLING CODE 8010-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-55349; File No. SR-OCC-2006-08]

**Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change To Revise Stock Futures Adjustment Methodology**

February 26, 2007.

**I. Introduction**

On May 19, 2006, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-OCC-2006-08 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on December 14, 2006.<sup>2</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

**II. Description**

OCC is seeking to amend Article XII (Futures and Futures Options), Section 3 (Adjustments to Futures and Futures Options) of OCC's By-Laws to conform to the changes adopted in rule change SR-OCC-2006-01, which amended Article VI (Clearance of Exchange Transactions), Section 11A (Adjustments for Stock Option Contracts).<sup>3</sup>

On January 12, 2006, OCC filed with the Commission proposed rule change SR-OCC-2006-01. Pursuant to SR-OCC-2006-01, OCC proposed, among other things, to amend its adjustment rules in Article VI, Section 11A for stock option contracts with respect to stock dividends, stock distributions, and stock splits. Subject to the Commission approving proposed rule change SR-OCC-2006-01, OCC proposed to amend Article XII, Section 3 to ensure stock futures contracts can be adjusted in a manner consistent with adjustments made to stock option contracts on the same underlying security.

As described in rule change SR-OCC-2006-01, OCC amended certain of its adjustment rules with respect to stock option contracts to eliminate the need to

round strike prices and/or units of trading in the event of certain stock dividends, stock distributions, and stock splits.<sup>4</sup> The adjustment rules for stock futures as currently provided in Article XII, Section 3 parallel the adjustment rules for stock options provided in Article VI, Section 11A. Uniformity of the two provisions would ensure that stock futures contracts can be adjusted in a manner consistent with adjustments made to stock option contracts on the same underlying security. The changes to Article XII, Section 3 that are the subject of this proposed rule change are made solely to track the changes made to Article VI, Section 11A and are intended to ensure that adjustments to stock options and to stock futures made for stock dividends, stock distributions, and stock splits will remain consistent with respect to an underlying security.

As noted above, the central purpose of the rule change in SR-OCC-2006-01 was to eliminate inequities which resulted from certain rounding practices previously required by OCC's By-Laws because stock option strike prices are quoted in and are therefore rounded to the nearest one-eighth. Stock futures do not have the same inequities because they are quoted in decimals.

Nevertheless, in order to ensure adjustments for stock options and for stock futures remain consistent, OCC proposes to revise the adjustment rules with respect to stock futures to match the revised adjustment rules with respect to stock options for stock dividends, stock distributions, and stock splits.

OCC will implement the proposed rule change described herein concurrently with the implementation of the changes approved in SR-OCC-2006-01.

**III. Discussion**

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed, in general, to protect investors and the public interest.<sup>5</sup> The Commission believes that OCC's rule change is consistent with this Section because it is intended solely to keep the adjustment rules for stock futures with respect to stock

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Securities Exchange Act Release No. 54898 (December 8, 2006), 71 FR 75287.

<sup>3</sup> Securities Exchange Act Release Nos. 55258 (February 8, 2007), 72 FR 7701 [File No. SR-OCC-2006-01] (order approving proposed rule change to revise stock options adjustment methodology) and 53400 (March 2, 2006), 71 FR 12226 [File No. SR-OCC-2006-01] (notice of filing of proposed rule change to revise stock options adjustment methodology).

<sup>4</sup> The notice and order for SR-OCC-2006-01 describes OCC's proposed changes to and the rationale for the rule change to its adjustment rules for stock options.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>15</sup> 17 CFR 200.30-3(a)(12).

dividends, stock distributions, and stock splits consistent with the adjustment rules for stock options with respect to stock dividends, stock distributions, and stock splits and thus should protect investors and the public interest.

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2006-08) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-3747 Filed 3-2-07; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55362; File No. SR-OCC-2007-01]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Credit Default Options

February 27, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 13, 2007, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change 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 parties.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would permit OCC to clear and settle credit default options ("CDOs"), which are options related to the creditworthiness of an issuer or guarantor of one or more specified debt securities. Credit default

options are proposed to be traded by the Chicago Board Options Exchange ("CBOE").<sup>2</sup>

#### II. Self-Regulatory Organization'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.<sup>3</sup>

##### (A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this rule change is to permit OCC to clear and settle CDOs, which are options related to the creditworthiness of an issuer or guarantor ("reference entity") of one or more specified debt securities ("reference obligation(s)"). CDOs are binary options that pay a fixed amount to the holder of the option upon the occurrence of a "credit event" affecting the reference obligations.<sup>4</sup> Characteristics of CDOs are described below, followed by an explanation of the specific rule changes being proposed to clear them.

##### Description of Credit Default Options

CDOs are structured as binary options that are automatically exercised and the exercise settlement amount payable if a "credit event" occurs at any time prior to the last day of trading. A "credit event" is generally defined as any failure to pay on any of the reference obligations or any other occurrence that would constitute an "event of default" or "restructuring" under the terms of any of the reference obligations and that the listing exchange has determined would be a credit event for purposes of the CDO. Under CBOE's current proposal, the payout or "settlement amount" for a single exercised option would be \$100,000.

OCC does not currently clear any binary options although OCC has filed

a rule change<sup>5</sup> seeking to clear binary options on securities and securities indexes that have been proposed for trading by CBOE and the American Stock Exchange ("Amex").<sup>6</sup> The binary options rule filings of OCC, Amex, and CBOE are still pending approval by the Commission, and OCC expects to amend its binary options rule filing in the near future in order to conform it to the changes made in this filing and to make any additional changes necessary to accommodate the Amex and CBOE products. Under the binary options rule filings, binary options are proposed to be traded on the price of single securities or on the price of indexes of securities where the option is exercised if the closing value of the underlying interest meets the specified criterion for automatic exercise, which could be defined as "at or above" a certain value, "below" a certain value, or in other ways. In other words, the underlying interest is a continuous measure that could have a wide range of positive values. CDOs, on the other hand, are options for which the payout is determined by the occurrence or non-occurrence of a discrete credit event affecting underlying securities. The rules proposed in the current rule filing for CDOs are intended to be sufficiently generic to be the basis for clearing CDOs as well as other binary options although certain provisions specific to other binary options proposals will be filed separately.

##### By-Law and Rule Amendments Applicable to CDOs

In order to accommodate trading in CDOs and to provide a framework of rules that can accommodate other binary option products as well, OCC proposes to add a new By-Law Article and a new Chapter to its Rules to incorporate several new defined terms and procedures for clearing and settling binary options generally and CDOs specifically.

##### 1. Terminology—Article I, Section 1 and Article XIV, Section 1 of the By-Laws

"Binary Option" is defined in Article XIV, Section 1 of the By-Laws, and that definition is cross-referenced in Article I of the By-Laws. The definition of "expiration time" in Article I is modified to be a default provision, permitting the expiration time to be defined differently for different classes of options. The definition of "option contract" in Article I of the By-Laws is amended to include a binary option and

<sup>2</sup> File No. SR-CBOE-2006-84, Securities Exchange Act Release No. 55251 (February 7, 2007), 72 FR 7091 (February 14, 2007) (notice of filing of proposed rule change).

<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>4</sup> "Binary" options (also sometimes referred to as "digital" options) are "all-or-nothing" options that pay a fixed amount if automatically exercised and otherwise pay nothing.

<sup>5</sup> File No. SR-OCC-2004-21.

<sup>6</sup> File Nos. SR-Amex-2004-27 and SR-CBOE-2006-105.

<sup>6</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).