

Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. 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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-2001-02 and should be submitted by August 24, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44610; File No. SR-OCC-2001-07]

### Self-Regulatory Organizations; Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Clearing Security Futures

July 27, 2001.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on June 29, 2001, 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. Self-Regulatory Organization's Statements of the Terms of Substance of the Proposed Rule Change

OCC is proposing rule changes to permit OCC to clear and settle security futures.

#### 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 states 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 such statements.<sup>2</sup>

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

###### 1. Introduction

In SR-OCC-2001-05, OCC filed with the Commission proposed amendments to its By-Laws specifying the types of markets for which OCC would clear security futures and describing the general terms on which it would clear for those markets. That rule change was approved by order of the Commission dated June 15, 2001.<sup>3</sup> The purpose of this rule filing is to submit a full set of rule changes that will permit OCC to clear and settle transactions in security futures.

These rules are intended to be as generic as possible to cover any security futures product that may be developed by the markets clearing through OCC. Nevertheless, it may be necessary in the future to amend or supplement these rules to accommodate specific products that are developed by the markets.

###### 2. Overview of Security Futures Rules

Amendments to the By-Laws and Rules are in the same general format that has previously been used for new products. The proposed rules would provide for clearance and settlement of nearly the full range of security futures products that can be traded under the Commodity Futures Modernization Act. These include physically-settled futures on individual stocks as well as cash-settled futures on individual stocks and narrow-based stock indices. A further rule change would be required in order for OCC to clear options on security futures.

The security futures provided for in this rule filing will have the same basic terms as futures contracts trading in the traditional futures markets under the jurisdiction of the Commodity Futures

Trading Commission ("CFTC"). A futures contract is entered into at a contract price" agreed upon between the buyer and seller in the futures market. The contract price represents the notional price or value at which the underlying stock or index will be purchased and sold at "maturity" of the contract if the contract has not been offset through an earlier closing transaction. The contracts will be marked to the daily closing price of the futures contract through "variation payments" that are passed through OCC from the buyer to the seller or vice versa depending upon the direction of the market movement. Intraday variation settlements are also provided for although it is OCC's present intention to effect intraday variation settlements only on an exception basis when market conditions or other factors make such settlements necessary or desirable. A deposit of "original" or "risk" margin will be required from both purchasers and sellers to cover the maximum anticipated variation payment that would likely be required (within usual confidence intervals) based on the clearing member's positions. This calculation will be made based upon all of the positions in the particular account of the clearing member using OCC's TIMS system for portfolio margining.

A maturity of the contract, a "final variation payment" will be determined based on a "final settlement price." The final settlement price will be the price or level of the underlying security at a specified point or interval in time, which could be either the closing price or a volume-weighted average price on the last day of trading of the futures contract or an opening price on the following day. In the case of cash-settled futures, all rights and obligations under the contract would be satisfied by the final variation payment. In the case of physically-settled security futures, delivery of and payment for the underlying stock would be effected pursuant to the same basic rules currently applicable to settlement of stock option exercises. The price to be paid by the purchaser is referred to as the "aggregate purchase price" and is equal to the final settlement price times the number of shares to be delivered. Effectively, delivery occurs at the current market price of the stock, but the net of the variation payments paid and received over the period that the futures contract was held puts the buyer and seller in the economic position of having purchased and sold the security at the original contract price.

Because a security future is both a "security" as defined in the Act and a

<sup>2</sup> The Commission has modified parts of these statements.

<sup>3</sup> Securities Exchange Act Release No. 44434 (June 15, 2001), 66 FR 33283.

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

“contract for sale of a commodity for future delivery” as defined in the Commodity Exchange Act (“CEA”), security futures are subject to the joint jurisdiction of the Commission and the CFTC. One result of this novel arrangement is that security futures may in certain circumstances be carried by clearing members for their customers in futures “customer segregated funds” accounts subject to the CEA and rules thereunder, and in other circumstances they may be carried in securities accounts subject to the Securities Investor Protection Act and Commission Rule 15c3-3 as well as other customer protection rules under the Act. When security futures are carried in segregated funds accounts at the member firm level, we have assumed that the CFTC will require that they also be carried in segregated funds accounts at the clearing level. Accordingly, OCC is proposing to add a “customer segregated funds” account to the types of accounts that a clearing member is able to carry at OCC.

OCC is also proposing to permit futures clearing organizations (“derivative clearing organizations” registered as such under the CEA) to carry omnibus accounts at OCC for the purpose of clearing transactions in security futures on behalf of their clearing members that are not clearing members of OCC. A futures clearing organization could establish one such account for clearing its members’ proprietary transactions and a second segregated funds account for members’ customer transactions.

OCC has provided below a more detailed description of specific changes and additions to the By-Laws and Rules. Some changes, however, seemed sufficiently obvious in their purpose and effect so that no further explanation has been provided.

### 3. Summary of By-Law Changes

*i. Definitions.* Because the various terms needed to describe security futures are used throughout the by-Laws and Rules, OCC purposes to include all necessary new definitions in Article I of the By-Laws. Necessary terms have been adopted and defined to correspond as closely as possible to the terminology used in the existing futures markets while also being consistent with terminology in OCC’s rules. Certain terms were included in SR-OCC-2001-05, referred to above. Others are added in this rule change, and various existing definitions are amended so that they apply to security futures as well as options. Most of these definitions are self-explanatory, but a few terms that are of particular significance are

described below. Certain defined terms are discussed later on in connection with the substantive provisions of the rules where they are used.

The terms “class” and “series” are amended in order to apply to futures even though such terms are not widely used, if at all, in the futures industry. Such terms are consistent with securities terminology and OCC’s existing rules. As in the case of options, the term “series” is used to define a set of security future contracts that are mutually identical and therefore fungible. The term “series marker” is used to describe a unique identifier that may be assigned to the particular market on which a series is traded. Because the series marker is considered a term of the security future, the effect of the marker is that contracts of a series bearing that unique series marker are not fungible with contracts traded on another exchange even if those contracts have otherwise identical terms. Whether or not a series of security futures will bear a series marker is a decision to be made by the market that trades the series.

The term “contracts” has been made lower-case to reflect a more generic definition. It is now used to refer to any “cleared security,” which includes security futures as well as broad-based index futures that are included in cross-margining arrangements. This broad usage is reflected primarily in the margin rules in Chapter VI of the Rules.

The definitions of “nominated correspondent” and “nominating clearing member” are being deleted as this particular agency relationship is no longer used. References to these terms are deleted throughout the By-Laws and Rules.

*ii. Clearing Members Qualifications.* The interpretations and Policies following Article V, Section 1 of the By-Laws are amended to adapt those requirements to clearing members that clear security futures. Because some of those clearing members may be futures commission merchants (“FCMs”) primarily regulated as such and only notice-registered as broker-dealers under Section 15(b)(11)(A) of the Act, it is necessary to provide alternative membership requirements in certain cases. For example, in the area of experience and competence, OCC has proposed to retain some flexibility in this regard by saying that such clearing members must meet “such other non-discriminatory standards of experience and competence as the Corporation may prescribe.” In addition, interpretation .06 under Section 1 provides that OCC may give expedited review and may waive certain non-financial criteria where appropriate in order to admit

affiliates of existing clearing members for the sole purpose of clearing security futures. Some clearing members do their futures business through an affiliate, and OCC believes that it is appropriate to give special consideration to such affiliates to the extent that their affiliation with an existing clearing member provides access to competent and experienced personnel able to assist the affiliate if necessary to enable the affiliate to meet OCC’s operational requirements.

*iii. Accounts for Clearing Security Futures.* OCC is amending Article VI, Section 3 of the By-Laws to provide an additional account, the segregated futures account, for the clearance of transactions of “futures customers,” which are defined in Article I to mean persons whose positions are carried by an FCM in a futures account required to be segregated under Section 4d of the CEA. A clearing member might carry customer positions in a futures account rather than a securities account either because it is primarily regulated as a FCM and does not carry securities accounts or because it is a dual registrant (fully registered both as an FCM and a broker-dealer) and the clearing member, or the clearing member and its customer, choose to carry security futures in a futures account.

The segregated futures account is essentially like a combined market-maker account in that the positions of different futures customers are commingled in it, and OCC’s lien extends to all positions, margin, and other assets in the account. OCC can liquidate the account to a single net debit or credit in the event of a clearing member default and can therefore margin it on a net basis as it does a combined market-maker account. Unlike the regular customers’ account, which is a securities account, there is no need to hold “fully-paid and excess margin securities” free of any liens because the customer’s futures account at the clearing firm level is not subject to Commission Rule 15c3-3.

*iv. General Clearance Rules.* The provisions of Article VI of the By-Laws were originally drafted to apply to transactions in stock options. Over the years, they have been amended and replaced and supplemented by provisions in other articles to provide for the clearance of other products. OCC has followed this pattern in the present rule change.

Provisions of Article VI, Section 3 relating to the “firm account” have been modified to provide that it may only be used for transactions of the firm itself and persons who are not customers

either for purposes of the CEA and CFTC regulations or for purposes of the securities laws and regulations, principally Rule 15c3-3 and the hypothecation rules.<sup>4</sup> In addition to the foregoing changes, and largely unrelated to security futures, OCC is amending Section 3 to eliminate references to "specialists," which references are rendered unnecessary by changes in the Article I definition of "market-maker" to include specialists. In addition, OCC is proposing to eliminate the stock specialist and registered trader accounts because OCC believes that no such accounts are currently in use. The definition of a "market-maker" has been expanded to include all types of proprietary trading done pursuant to rules that are intended to ensure that such trading serves a market function. This change will allow positions of stock specialists and registered traders to be carried in a market-maker account.

Sections 4 through 9 of Article VI of the By-Laws are amended to make them applicable to security futures and to eliminate certain redundancies and unnecessary material. A new paragraph (d) has been added to Section 10, which relates to the establishment of terms of cleared securities and the opening of new series, in order to provide for security futures. In addition, the provisions setting deadlines for the various markets to notify OCC of the opening of new series in any cleared security have been updated and consolidated in a new paragraph (e), which permits OCC to announce such deadlines from time to time. The advance notice that is actually currently required by OCC is generally much shorter than the deadlines specified in Section 10 as a result of improvements in efficiency that make the longer notice periods unnecessary. Sections 11 through 18 are amended to apply to security futures.

Section 19 of Article VI, which relates to shortages of underlying securities, makes parallel provisions for physically-settled security futures. It is worth noting that in the case of security futures, the economic result of the futures contract is primarily realized through the stream of variation payments and that the stock is delivered against current market value at maturity of the future. Accordingly, if a shortage of underlying securities makes delivery impossible or unduly burdensome, OCC may elect simply to terminate delivery and payment obligations and let the final variation payment completely satisfy all rights and obligations under the contract. If, for some reason, the

circumstances suggest that the final settlement price should be adjusted in any way to reflect that no delivery will occur, the provisions of amended Section 19 give OCC the authority to do so.

*v. New Article XII of the By-Laws.*

This article sets out some basic provisions for security futures, including both physically-settled and cash-settled security futures. The general rights and obligations of buyers and sellers of security futures, including the obligation to make and the right to receive variation payments, are set forth here.

Section 3 pertains to adjustments of the terms of outstanding security futures in response to certain events affecting the underlying securities that make adjustments necessary or appropriate in the interest of fairness to buyers and sellers. Section 3 sets out detailed adjustment rules for security futures while the detailed provisions for adjustment of narrow-based index futures are set forth in Section 4.

Adjustments to security futures will be necessary from time to time to reflect certain corporate events affecting the underlying stock. Such adjustments will be determined by OCC rather than by an "adjustment panel" under the provisions of existing Article VI, Section 11 of the By-Laws. However, the adjustment rules for security futures are substantially parallel to the adjustment rules for stock options, and the adjustment rules in Section 4 for narrow-based index futures are parallel to the adjustment rules for index options. OCC anticipates a policy of coordinating discretionary adjustment determinations for consistency between adjustments of security futures and option contracts on the same underlying stock to the fullest extent practicable.

Futures contracts are ordinarily like European-style options in the sense that there is no opportunity to "exercise" or terminate the contract prior to its expiration or maturity date (other than through closing transactions in the market). There are currently no European-style options on individual stocks, and security futures may therefore be adjusted differently than options on the same securities. For example, where a warrant or right is distributed that expires before the maturity date of a security future or expiration date of a stock option, the security future may not be adjusted to reflect that distribution whereas an American-style option on the same security ordinarily would be adjusted.

Where the adjustment rules call for adjustment in the exercise price of an option, the corresponding adjustment

for futures contracts would be to make a one-time only adjustment in the last settlement price established before the adjustment is effective for use in determining the correct daily variation payment or the adjusted contracts. Cash-settled security futures ordinarily will be adjusted in accordance with the same rules as physically-settled security futures and options. Where physically-settled contracts are adjusted by adjusting the underlying to include distributed property, the appropriate adjustment to the cash-settled contract could be different if there is no public market in which the distributed property will be traded for purposes of establishing market values thereafter.

Article XII, Section 5, which anticipates situations in which a market price for an underlying stock or a current value of an underlying index might be unavailable or inaccurate, is essentially parallel to the provisions of Article XVII, Section 4, which applies to index options. The rule applies not only to narrow-based index futures, but also to cash-settled and physically-settled security futures. The reason for this is that security futures, unlike stock options, require a determination of "final settlement price" at maturity. Whereas settlement of an exercised stock option is effected by delivery of the stock against the exercise price of the option, settlement at maturity of a security future involves a final variation payment based on the final settlement price, which is also the price against which the underlying stock is delivered if the future is physically-settled.

Section 6 of Article XII provides that the final settlement price for any security future at maturity is determined by a method approved by the market listing the security future. It could be based on a price or level of the underlying interest at a point in time, such as a closing value or opening value for a stock or index on the maturity date or the following business day, or it could be based on an average of prices, such as the volume-weighted average price for an underlying stock on the maturity date.

#### 4. Rules

*i. Financial Requirements for Clearing Members.* Financial requirements are substantially the same for all clearing members, whether or not they clear transactions in security futures. However, because OCC will admit clearing members that are merely notice registered as broker-dealers under Section 15(c)(11)(A) of the Act and are primarily regulated as FCMs under the CEA and the rules of the CFTC, OCC financial requirements in rule 301 that

<sup>4</sup> 17 CFR 240.8c-1 and 240.15c2-1.

are based on Commission financial requirements are being supplemented to provide appropriate references to corresponding CFTC requirements. It will be OCC's policy as nearly as practicable to provide substantively identical requirements for all clearing members whether their primary regulator is the Commission or the CFTC.

*ii. Trade Reporting and Matching.*

Trade reporting and matching will occur for security futures in essentially the same way as for options. Rule 401 sets forth the information required to be specified in matched trade reports. As noted above, such information in the case of security futures may include, if a market so elects, a series marker that prevents contracts traded on that market from being treated as fungible (except for margin and expiration settlement purposes) with otherwise identical futures contracts traded on other markets cleared by OCC. Following the practice in the futures markets, OCC will not require that matched trade information submitted by a market identify each trade as opening or closing. OCC understands that some markets may not have systems capable of making such identifications. If a market elects to submit trade information without identification as to whether the transaction is opening or closing, OCC will treat all transactions as opening transactions. Each clearing member must then submit gross position adjustment information at the end of the day to reduce its positions to reflect the actual open interest in accounts carried by the clearing member. These procedures are consistent with current practice on many futures exchanges.

*iii. Variation Settlement.* Daily variation settlements and final variation settlements will be netted by account with other daily cash settlements and settled in accordance with OCC's usual cash settlement procedures. Chapter V of OCC's rules is being renamed "Daily Premium and Futures Variation Settlement." The rules in Chapter V are being modified as necessary to include futures variation payments.

*iv. Margins.* Rules 601 and 602 are being amended to include security futures in the calculation of the "risk margin" required for each account of a clearing member. The term "risk margin" is replacing the term "additional margin" for options as well as security futures because OCC believes it is more descriptive. Risk margin, which is sometimes known as "initial margin" in the futures markets, is the margin intended to cover one day's anticipated market movement. Security

futures (whether physically-settled or cash-settled) will be margined under Rule 601, which is applicable to equity options. Narrow-based index futures will be margined under Rule 602, which is applicable to index options and other non-equity options. Note that OCC's margin systems already provide for risk-based margining of index futures contracts in cross-margining accounts. Accordingly, this rule change merely extends the margin rules to cover security futures and makes other minor changes to adapt the rule to security futures. There is no substantive change in the way in which margin is calculated. Minor changes in other rules in Chapter VI are being proposed to adapt the rules for security futures.

OCC will not, at least initially, accept escrow deposits of underlying securities to collateralize positions in security futures. OCC has no present plans to include security futures in any cross-margining arrangement to allow security futures to be pledged under Rule 614.

Because each long and short position in a futures contract represents both an asset and a liability, futures contracts should never be deemed to be "fully paid securities" or "excess margin securities" within the meaning of Commission Rule 15c3-3. Therefore, neither long or short positions in security futures will be required to be "segregated" under OCC Rule 611.<sup>5</sup>

*v. Delivery of and Payment for Underlying Stock.* The provisions of Chapter IX of the rules relating to delivery and settlement in connection with exercises of stock options are being made applicable to physically-settled security futures without substantive change. As in the case of stock option exercises, delivery, and settlement with respect to security futures will ordinarily take place through the National Securities Clearing Corporation ("NSCC"). The only significant difference is that in the case of security futures the stock will settle at NSCC against the final settlement price, which will be essentially the current market value of the stock as of the date when the futures contract matures. Because option exercises settle at the exercise price, which can be deep in the money, settlement of option exercises imposes risks on NSCC that have been covered in an elaborate collateral sharing arrangement known as the "NSCC

Accord." OCC anticipates that it will have a much simpler agreement with NSCC for stock settlements arising from security futures contracts. Delivery obligations arising from security futures will be netted, but they will not be netted with exercise settlements of option contracts because of the differences in the arrangements with NSCC under which the two types of transactions are settled.

The provisions in Chapter IX relating to stock settlements that cannot be completed through NSCC have been adapted to apply to settlements arising from security futures as well. Similarly, the same basic buy-in and sell-out rules have also been made applicable.

*vi. Clearing Fund Contributions.*

Security futures will be covered by the same clearing fund that stands behind all options cleared by OCC. Contributions of individual clearing members to the fund are based on the proportion that their average daily margin requirement bears to the average daily margin requirements of all clearing members, subject to a minimum contribution of \$150,000. A special provision is being added to Rule 1001, however, to provide that an affiliate of an existing clearing member that becomes a clearing member of OCC for the purpose of clearing transactions in security futures will not be subject to the \$150,000 minimum clearing fund contribution as long as the existing clearing member is in compliance with OCC clearing fund requirements and the affiliate is in compliance with its calculated clearing fund requirement. OCC believes that it would be inappropriate to require an additional \$150,000 payment merely because a clearing member chooses, or may be forced because of systems or for other reasons, to clear security futures through an affiliate.

*vii. Suspension of Clearing Members and Liquidation of Accounts.* The provisions of Chapter XI of OCC's rules will apply to clearing members carrying positions in security futures in essentially the same way as they apply to clearing members carrying positions in options. Security futures will be liquidated subject to the same basic rules as options. The proposed changes in the rules are intended to apply as precisely as possible the logic of the existing rules to the liquidation of security futures. This task is complicated by the fact that security futures are quite different from options in ways that have important consequences for the structure of these rules. For example, a security future is both an asset and a liability, and accordingly the "seller" of a security

<sup>5</sup> Rule 611 allows clearing members to comply with Commission Rule 15c3-3 by holding customers' fully paid long option positions free of OCC's lien. (The rule allows clearing members to "unsegregate" long positions that are components of customer spreads, which has the effect of pledging those positions to OCC in exchange for reduced margin.)

future, unlike the writer of an option, may be making rather than receiving a payment. Both short positions and long positions in security futures are treated as "securities" under these rules, and hence the proceeds from positions in security futures, whether resulting from a closing transaction or from a variation payment, are treated like premiums received on the closing sale of an option. Since, as noted above, futures in the (securities) customers' account are always "unsegregated" (for purposes of Rule 611), there is no need for rules relating to the disposition of "segregated" security futures.

OCC is also taking this opportunity to clarify in Rule 1105(d) that, where a charge is appropriately made against a market maker account, it will be made against that account and only any shortfall will be charged against the Liquidating Settlement Account. This is not a substantive change as the rules and the provisions of the market maker account agreements have always been interpreted in this way.

*viii. New Chapter XIII.* Following past practice for new products, OCC is proposing a new chapter of the rules relating to security futures. Rule 1301 sets forth the method for determining the amount of variation payments, including the final variation payment. It is anticipated that variation settlement will be affected only once each business day and that OCC would respond to unusually large intraday price moves by requiring additional risk margin. However, the proposed rules would give OCC the flexibility to effect an additional, intraday variation settlement if OCC deems such payment to be appropriate in unusual market conditions or to coordinate its actions with those of other clearing organizations.

Rule 1302 provides for delivery of stocks underlying physically-settled security futures that have reached maturity. This is accomplished primarily by cross-reference to the rules in Chapter IX. Rule 1303 provides that "associate clearinghouses" may clear transactions in security futures through OCC on an omnibus basis on behalf of their members that are not clearing members of OCC. Associate clearinghouses will be treated like any other clearing member for most purposes under the rules. OCC anticipates that one or more futures clearing organizations will become associate clearinghouses of OCC. The agreements under which these associate clearinghouses will operate have not yet been negotiated. There is precedent for such arrangements, however, in that OCC had such a relationship with the

clearinghouse for the European Options Exchange ("EOE") at a time when OCC-issued options were traded on EOE.<sup>6</sup>

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Act because it fosters cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, removes impediments to and perfects the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, protects investors and the public interest.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

OCC does not believe that the proposed rule change would impose any burden on competition.

*(C) 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.

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

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

(a) By order approve 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 is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-2001-07 and should be submitted by August 24, 2001.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Docket No. 34-44603; File No. SR-PCX-2001-27]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Withdrawing From the Joint-Exchange Options Plan**

July 27, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 27, 2001, the Pacific Exchange, Inc. ("PCX" or "Exchange") 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 the PCX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The PCX proposes to withdraw from the Joint-Exchange Options Plan ("JEOP")<sup>3</sup> upon Commission approval

<sup>7</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> In September 1991, the Commission approved the JEOP for the selecting, listing, challenging, and arbitrating the eligibility of new standardized equity options filed by the American Stock Exchange LLC

<sup>6</sup> Securities Exchange Act Release No. 24832 (August 21, 1987), 52 FR 32377. The Commission notes that the order required OCC to file with the Commission under Rule 19b-4 of the Act any new international market agreement. The Commission expects OCC to undertake the same obligation with regard to future operating agreements it makes with any associate clearinghouse.