

long-lived assets, the exclusion of gains and losses on sales of a subsidiary's or investee's stock and the exclusion of in-process purchased research and development charges. The Exchange also believes that this adjustment is reasonable given the purpose of the earnings standard, which is to determine the suitability for listing of companies on a forward-looking basis.

## 2. Statutory Basis

The basis under the Exchange Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>5</sup> that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act.

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

Written comments were neither solicited nor received.

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

Because the proposed rule change: (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act<sup>6</sup> and Rule 19b-4(f)(6) thereunder.<sup>7</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the

Exchange Act<sup>8</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>9</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay. The Commission hereby grants the request.<sup>10</sup> The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the proposed rule change is consistent with other adjustments the Exchange makes when evaluating applicants on a forward-looking, post-IPO basis under the existing earnings standard in Section 102.01C(I) of the Listed Company Manual, and the proposal will take effect as a Pilot Program, allowing the Commission to evaluate the suitability of the proposal during the pilot period.<sup>11</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act.

## 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 Exchange 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2007-75 on the subject line.

### *Paper Comments*

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission,

<sup>8</sup> 17 CFR 240.19b-4(f)(6).

<sup>9</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>10</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>11</sup> Not later than 60 days prior to the expiration of the Pilot Program, the NYSE should provide the Commission with information regarding the nature of the adjustments that have been made to the financial statements of individual companies that have listed on the Exchange using the proposed rule change.

100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSE-2007-75. 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, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing will also be available for inspection and copying at the principal office of the NYSE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File number SR-NYSE-2007-75 and should be submitted on or before September 17, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-16837 Filed 8-24-07; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-56288; File No. SR-OCC-2007-06]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Credit Default Basket Options

August 20, 2007.

## I. Introduction

On April 20, 2007, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a

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

<sup>5</sup> 15 U.S.C. 78f(b)(5).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR 240.19b-4(f)(6). Pursuant to Rule 19b-4(f)(6)(iii) under the Exchange Act, the Exchange is required to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied the five-day pre-filing requirement.

proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and on June 16, 2007, amended the proposed rule change. Notice of the proposal was published in the **Federal Register** on June 27, 2007 for a 15-day comment period.<sup>2</sup> No comment letters were received. This order approves the proposed rule change.

## II. Description

The purpose of the proposed rule change is to permit OCC to clear and settle credit default basket options (“CDBOs”), which are options related to the creditworthiness of an issuer or guarantor (“reference entity”) of one or more specified debt securities (“reference obligations”). CDBOs are proposed to be traded by the Chicago Board Options Exchange (“CBOE”).<sup>3</sup> Characteristics of CDBOs are described below, followed by an explanation of the specific rule changes being implemented by OCC in order that it may clear and settle them.

### *Description of Credit Default Basket Options*

CDBOs are structured as binary options with an automatic exercise feature.<sup>4</sup> They are very similar to Credit Default Options (“CDOs”) that were recently approved for trading by CBOE and for clearing by OCC except that CDBOs are based upon multiple reference entities instead of a single reference entity.<sup>5</sup> A CDBO will be automatically exercised and an exercise settlement amount will be payable if a “credit event” occurs with respect to any one of the reference entities at any time prior to the last day of trading. As in the case of a CDO, a “credit event” is generally defined as any failure to pay on any of the reference obligations or any other occurrence that constitutes an “event of default” or a “restructuring” under the terms of any of the reference obligations of a particular reference entity and that the listing exchange has

determined is a credit event for purposes of the CDBO.

CDBOs may be thought of as a bundle of CDOs in that there is a fixed exercise settlement amount that is determined for each of the reference entities included in the basket of reference entities underlying the CDBO. The exercise settlement amount may be the same for all of the reference entities or it may be different for each one.

CDBOs come in two types: multiple payout CDBOs and single payout CDBOs. A multiple payout CDBO is automatically exercised each time there is a credit event affecting any one of the reference entities. Once the CDBO has been exercised with respect to that reference entity such reference entity is removed from the basket. In the unlikely event that a CDBO is exercised with respect to all of the reference entities in the basket, the expiration of the CDBO would be accelerated. A single payout CDBO, on the other hand, is automatically exercised only the first time that a credit event is confirmed with respect to any one of the reference entities. A single payout CDBO cannot be exercised again with respect to any other reference entity, and its expiration date would be accelerated. With either a multiple payout CDBO or a single payout CDBO, the exercise settlement amount will be the exercise settlement amount that is assigned by the listing exchange to the reference entity affected by the credit event.

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

In order to accommodate trading in CDBOs, OCC is amending the By-Law Article and Rule Chapter that it adopted for the clearance and settlement of CDOs.

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

The definition of “option contract” in Article I of the By-Laws is amended to include CDBOs. “Adjustment event” and “credit event” are defined in Article XIV by reference to the rules of the listing exchange. The terms “credit event confirmation” and “credit event confirmation deadline” are used, respectively, to refer to the notice that must be provided by the listing exchange or other reporting authority to OCC that a credit event has occurred (and that a CDBO will therefore automatically be exercised) and to the deadline for receipt of such notice if it is to be treated as having been received on the business day on which it is submitted. Credit event confirmations received after the credit event confirmation deadline on the expiration

date but before the expiration time will be given effect but may result in delayed exercise settlement.

OCC is also defining the term “exercise settlement amount” in Article XIV for purposes of CDBOs. The exercise settlement amount of a CDBO is the amount specified by the listing exchange that will be paid in settlement when a CDBO is automatically exercised as a result of a credit event affecting a particular reference entity. The exercise settlement amount for each reference entity will be determined by the exchange at the time of listing when the exchange fixes the other variable terms for the options of a particular class or series.

OCC is replacing the definitions of “variable terms,” “premium,” and “multiplier” in Article I of the By-Laws with revised definitions in Article XIV, Section 1 that are applicable to CDBOs. The term “class” is also redefined in Article XIV, Section 1. To be within the same class, CDBOs must have the same reporting authority, which OCC anticipates will ordinarily be the listing exchange. This is necessary because of the degree of discretion that the reporting authority will have in determining whether a credit event has occurred.

Other terms that were created or amended for CDOs will be modified to apply to CDBOs as well.

#### 2. Terms of Cleared Contracts—Article VI, Section 10(e)

A new paragraph (e) is added to Article VI, Section 10 so that an exchange is required to designate the exercise settlement amount and expiration date for a series of CDBOs at the time the series is opened for trading. Section 10(e) also reminds the reader that CDBOs are subject to adjustment under Article XIV.

#### 3. Rights and Obligations—Article XIV, Section 2

Article XIV, Section 2A defines the general rights and obligations of holders and writers of CDBOs. As noted above, the holder of a CDBO that is automatically exercised has the right to receive the fixed exercise settlement amount from OCC, and the assigned writer has the obligation to pay that amount to OCC.

#### 4. Adjustments of Credit Default Basket Options—Article XIV, Section 3; Determination of Occurrence of Credit Event—Article XIV, Section 4

Article XIV, Section 3 provides for adjustment of CDBOs in accordance with the rules of the listing exchange. CBOE’s rules provide for adjustment of

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

<sup>2</sup> Securities Exchange Act Release No. 55939 (June 21, 2007), 72 FR 35291.

<sup>3</sup> Securities Exchange Act Release Nos. 55938 (June 21, 2007), 72 FR 35523 (June 28, 2007) (notice of filing of proposed rule change); 56275 (August 17, 2007) (order approving proposed rule change) [File No. SR-CBOE-2007-26].

<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> Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) [File No. SR-CBOE-2006-84]. See also Securities Exchange Act Release No. 55872 (June 6, 2007), 72 FR 32693 (June 13, 2007) [File No. SR-OCC-2007-01].

CDBOs in the case of certain corporate events affecting the reference obligations, and OCC proposes simply to defer to the rules and to the determinations of the listing exchange pursuant to its rules. Accordingly, as in the case of CDOs, OCC will have no responsibility for adjustment determinations with respect to CDBOs.

Similarly, Section 4 provides that the listing exchange for a class of CDBOs will have responsibility for determining the occurrence of a credit event that will result in the automatic exercise of the CDBOs of that class with respect to a particular reference entity. The listing exchange has the obligation to provide a credit event confirmation to OCC in order to trigger the automatic exercise.

#### 5. Exercise and Settlement—Chapter XV of the Rules and Rule 801

CDBOs will not be subject to the exercise-by-exception procedures applicable to most other options under OCC's Rules but instead will be automatically exercised prior to or at expiration if the specified criterion for exercise is met. The procedures for the automatic exercise of CDBOs, as well as their assignment and settlement (including during periods when a clearing member is suspended), are set forth in Rules 1501 through 1505 of new Chapter XV and in revised Rule 801(b).

#### 6. Special Margin Requirements—Rule 601; Deposits in Lieu of Margin—Rule 1506

As in the case of CDOs, OCC will not initially margin CDBOs through its "STANS" system in the same way that other options are margined. Because of the fixed payout feature of CDOs and CDBOs, further systems development is needed to accommodate these options in STANS on a portfolio basis. Until such development is completed, elements of STANS will be used to determine the expected liquidating value of each class of CDBOs and CDOs by extracting certain information regarding the default probability from the listed equity options on the common stock of the reference entity and the market price of the CDBOs and CDOs. Expected liquidating values can then be derived from simulated price movements in the stock over a range of values. Thus, general principles of STANS will be applied, but each class of CDBOs and CDOs will be treated as a separate portfolio and will not be included within the entire portfolio of a particular account. An exception to this will be in the case where a firm has a net long position in CDBO or CDO contracts that is not required to be segregated and the risk computed under

this methodology is less than 100% of the premium value of the net long position. In such a situation, the excess long value will be used to cover requirements associated with other cleared contracts. This margin methodology will result in a more conservative risk estimate than if the contracts were fully integrated in STANS since offsets in the risk calculation between these products and others will not be recognized except to the extent of any excess long value. Ultimately, CDBOs will be incorporated into the STANS system and will be valued and margined on a risk basis.

OCC does not propose to accept escrow deposits in lieu of clearing margin for CDBOs. Therefore, Rule 1506 states that Rule 610, which otherwise would permit such deposits, does not apply to CDBOs.

#### 7. Acceleration of Expiration Date—Rule 1507

This provision permits OCC to accelerate the expiration date of a single payout CDBO when the option is deemed to have been automatically exercised on any day prior to the expiration date and to accelerate the expiration date of a multiple payout CDBO when the option is deemed to have been automatically exercised with respect to every reference entity underlying such option prior to the expiration date.

### III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>6</sup> The Commission finds the proposed rule change to be consistent with Section 17A(b)(3)(F) of the Act because it is designed to promote the prompt and accurate clearance and settlement of transactions in, including exercises of, credit default basket options. The proposed rule change is also consistent with Section 17A(b)(3)(F) of the Act because it is designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions.<sup>7</sup> These purposes are accomplished by having the clearance and settlement of CDBOs take place at OCC with OCC applying substantially the same rules and procedures to CDBOs as it applies to

similar transactions in other cash-settled options.

### 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.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2007-06) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-16839 Filed 8-24-07; 8:45 am]

**BILLING CODE 8010-01-P**

## SMALL BUSINESS ADMINISTRATION

### Houston District Advisory Council; Public Federal Meeting

Pursuant to the Federal Advisory Committee Act, Appendix 2 of Title 5, United States code, Public Law 92-463, notice is hereby given that the U.S. Small Business Administration, Houston District Advisory Council will hold a federal public meeting on Tuesday, September 25, 2007 starting at 11 a.m. The meeting will be held at the U.S. Small Business Administration, Houston District Office, 8701 Gessner, Suite 1200, Houston, TX 77074.

The purpose of the meeting is to discuss the following topics: (1) District Office update and goals; performance and rankings; (2) 2007 Mid America Conference; (3) SBA's 7(a), 504, 8(a) programs and Patriot Express Loan Program; (4) Small Business Week and Small Business Development Center; and (5) SCORE updates.

Anyone wishing to attend or to make a presentation must contact Alfreda Crawford, Business Development Specialist, U.S. Small Business Administration, Houston District Office, 8701 Gessner, Suite 1200, Houston, TX 77074; phone (713) 773-6555; fax (202) 481-0150; E-mail: [alfreda.crawford@sba.gov](mailto:alfreda.crawford@sba.gov).

**Matthew Teague,**

*Committee Management Officer.*

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<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>8</sup> 17 CFR 200.30-3(a)(12).