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No. SR-OCC-2004-05

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**Form 19b-4**

**Proposed Rule Change**

**by**

**THE OPTIONS CLEARING CORPORATION**

**Pursuant to Rule 19b-4 under the  
Securities Exchange Act of 1934**

**Item 1. Text of the Proposed Rule Change**

The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to amend its By-Laws and Rules as set forth below in order to make clear that premiums in respect of foreign currency options and cross-rate foreign currency options may be expressed either in units of the relevant trading currency or as a percentage of the relevant underlying currency. Material proposed to be added to OCC’s By-Laws and Rules as currently in effect is underlined, and material proposed to be deleted is enclosed in bold brackets.

**THE OPTIONS CLEARING CORPORATION**

**BY-LAWS**

**ARTICLE I**

**Definitions**

**SECTION 1.** Unless the context requires otherwise (or except as otherwise specified in the By-Laws), the terms defined herein shall, for all purposes of these By-Laws and the Rules of the Corporation, have the meanings herein specified.

**A.-S.** [unchanged]

**T.**

(1) – (2) [unchanged]

## Trading Currency

(3) The term "trading currency" means the currency in which premium and/or exercise prices are denominated for a class of foreign currency options or cross-rate foreign currency options. Premium and exercise price are ordinarily denominated in the same currency; but in the case of certain classes of options, the premium may be denominated in the underlying currency. In such cases, the term "trading currency" may refer to the currency in which the premium is denominated, the currency in which the exercise price is denominated, or both of them, as the context requires. For clarity, the currency in which the premium is denominated is sometimes referred to as the premium currency, and the currency in which the exercise price is denominated is sometimes referred to as the exercise currency.

(4) [unchanged]

\* \* \*

## ARTICLE XV

### Foreign Currency Options

#### Introduction

By-Laws in this Article are applicable only to options where either the trading currency (*i.e.*, the premium currency or the exercise currency) or the underlying [security]interest is a foreign currency. [In addition, t]The By-Laws in Articles I-XI are also applicable to such options [where the trading currency or the underlying security is a foreign currency], in some cases supplemented by one or more By-Laws in this Article, except for By-Laws that have been replaced in respect of foreign currency options by one or more By-Laws in this Article and except where the context otherwise requires. Whenever a By-Law in this Article supplements or, for purposes of this Article, replaces one or more By-Laws in Articles I-XI, that fact is indicated in brackets following the By-Law in this Article.

#### Definitions

### SECTION 1.

A.-B. [unchanged]

C.

(1) [unchanged]

**Class of Options**

(2) The term "class of options" in respect of foreign currency options means all option contracts of the same type and style covering the same foreign currency and having the same [trading currency and the same] unit of trading and the same trading currency (*i.e.*, all options in the class must have the same premium currency and the same exercise currency).

D.-O. [unchanged]

P.

**Premium**

(1) The term "premium" in respect of an Exchange transaction in foreign currency options is equal to the price per unit of underlying currency [expressed in such trading currency as designated by the Exchange on which such options are traded,] of each such option, multiplied by the unit of trading and by the number of contracts subject to the Exchange transaction. Premium may be expressed either in units (including fractions, decimals, or multiples of such units) of the trading currency designated by the Exchange on which such options are traded or as a percentage of the amount of underlying currency covered by the transaction. Premium shall be payable in the currency in which it is expressed.

(2) [unchanged]

Q.-R. [unchanged]

S.

**Settlement Time**

(1) The term "settlement time" in respect of an Exchange transaction in foreign currency options settling in the United States means 9:00 A.M. Central time (10:00 A.M. Eastern time) on the first business day immediately following the day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such Transaction was effected. The term "settlement time" in respect of an Exchange transaction in foreign currency options settling outside the United States means 11:00 A.M. local time in the country of origin of the trading currency (*i.e.*, the premium currency), or such other time as the Corporation may specify, on the first foreign business day in that country immediately following the business day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction was effected.

T.-Z. [unchanged]

\* \* \*

**ARTICLE XX**

**Cross-Rate Foreign Currency Options**

\* \* \*

**Definitions**

**SECTION 1.**

**A.-B.** [unchanged]

**C.**

(1) [unchanged]

**Class of Options**

(2) The term "class of options" in respect of cross-rate foreign currency options means all option contracts of the same type and style covering the same foreign currency and having the same [trading currency and the same] unit of trading and the same trading currency (i.e., all options in the class must have the same premium currency and the same exercise currency).

**D.-O.** [unchanged]

**P.**

**Premium**

(1) The term "premium" in respect of an Exchange transaction in cross-rate foreign currency options means the [premium]price per unit of underlying [foreign] currency of each such option [expressed in units of the trading currency or such fractions or multiples thereof as shall be designated by the Exchange on which such options are traded, ]multiplied by the unit of trading and by the number of contracts subject to the Exchange transaction. Premium may be expressed either in units (including fractions, decimals, or multiples of such units) of the trading currency designated by the Exchange on which such options are traded or as a percentage of the underlying currency. Premium shall be payable in the currency in which it is expressed.

(2) [unchanged]

**Q.-R.** [unchanged]

**S.**

**Settlement Time**

(1) The term "settlement time" in respect of an Exchange transaction in cross-rate foreign currency options means 11:00 A.M. local time in the country of origin of the trading currency (*i.e.*, the premium currency), or such other time as the Corporation may specify, on the first foreign business day in that country immediately following the business day on which the Corporation receives matching trade information in respect of such transaction from the Exchange on which such transaction was effected.

T.-Z. [unchanged]

\* \* \*

**Definitions**

\* \* \*

**RULES**

\* \* \*

**CHAPTER XVI**

**Foreign Currency Options**

**Introduction**

The rules in this Chapter are applicable only to options where either the trading currency (*i.e.*, the premium currency or the exercise currency) or the underlying [security]interest is a foreign currency (as defined in the By-Laws). [In addition, t]The rules in Chapters I through XII are also applicable to such options [where the trading currency or the underlying security is a foreign currency], in some cases supplemented by one or more rules in this chapter, except for rules that have been replaced in respect of foreign currency options by one or more rules in this chapter and except where the context otherwise requires. Whenever a rule in this chapter supplements or, for purposes of this chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the rule in this chapter.

**Item 2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by OCC's Board of Directors at a meeting held on May 20, 2003.

Questions regarding the proposed rule change should be addressed to Jean M. Cawley, First Vice President and Deputy General Counsel, at (312) 322-6269.

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

**Background**

The definitions of “premium” in respect of foreign currency options and cross-rate foreign currency options in the By-Laws and Rules presently contemplate the expression of such premiums in units of the relevant trading currency. “Trading currency” is defined in Article I of OCC’s By-Laws as “the currency in which premium and/or exercise prices are denominated for a class of foreign currency options or cross-rate foreign currency options.” Normally, premium and exercise prices are expressed in the same currency. However, in one situation they are not. The Philadelphia Stock Exchange (“Phlx”), which trades both foreign currency options and cross-rate foreign currency options, permits premiums to be quoted not only in units of the trading currency, but, alternatively, as a percentage of the underlying currency.

As an example, the premium of a USD/EUR contract could be expressed in U.S. cents per euro (a quote of  $1.05 = \$0.0105 \times 62,500$  (the standard EUR contract size) = \$656.25), or as a percentage of euro (a quote of  $2.05 = \text{EUR}.0205 \times 62,500 = \text{EUR } 1281.25$  When premiums are quoted as a percentage of the underlying currency, premiums are also paid in the underlying currency. In that case, for purposes of premium quotation and settlement only, the “trading currency” is the same as the underlying currency (EUR, in our example). Nevertheless, the exercise price for such options would continue to be stated in terms of a trading currency other than the underlying currency (USD, in our example).

This method of premium quotation and settlement presently occurs only in the case of “flexibly structured options” as defined in Article I of the By-Laws (“flex options”). Nevertheless, OCC

wishes to amend the relevant definitions of “premium” in order to make clear that quotation of premiums as a percentage of an underlying foreign currency is permissible, as presently done under the flex options rules.

### **Proposed Rule Changes**

As noted above, "Trading Currency" is presently defined to mean "the currency in which premiums and/or exercise prices are denominated for a class of foreign currency options or cross-rate foreign currency options." Additional language is proposed to be added in order to clarify the meaning of the term where, as described above, the premium is quoted in the underlying currency and the exercise price in a different currency. In that case, the context will determine whether the reference to "trading currency" is a reference to the premium currency or the currency in which the exercise price is denominated (the "exercise currency"). Where the context could allow any possibility of confusion as to which is meant, OCC is proposing to state expressly which is intended. For this purpose, changes are proposed in the introduction to Article XV of the By-Laws and Chapter XVI of the Rules and to the definitions of "Class of Options" and "Settlement Time" in both Article XV and Article XX of the By-Laws.

The definitions of “premium” in Articles XV and XX of the By-Laws, which are specifically applicable to foreign currency options and cross-rate foreign currency options, respectively, are amended by adding a new sentence to each in order to make clear that such premiums may be quoted as a percentage of the relevant underlying currency to the extent permitted under Exchange rules. The definitions have also been amended to expressly provide that premiums quoted in units of a trading currency may be quoted in any of (i) fractions, (ii) decimals, or (iii) multiples of units of the relevant trading currency. Further, the marked changes



correct an inconsistency between the current Article XX definition of “premium,” which specifically mentions multiples and fractions of the unit of trading currency, and the current Article XV definition of “premium,” which is silent on the point.

The Corporation has taken advantage of this opportunity to clarify and conform, to the extent possible, the definitions of “premium” in respect of foreign currency options and cross-rate foreign currency options. The rule change contains a few other stylistic changes not worthy of comment.

\* \* \*

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Exchange Act because it will promote the prompt and accurate clearance and settlement of securities transactions and, further, removes impediments to the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions; in this case, by clarifying the Corporation’s By-Laws and Rules with respect to quotation and payment of premiums in respect of foreign currency options and cross-rate foreign currency options.

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

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

**Item 5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

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

**Item 6. Extension of Time Period for Commission Action**

Not applicable.

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

OCC believes the proposed rule change is appropriate for summary effectiveness because it concerns policies, practices, or interpretations regarding the administration of an existing rule.

**Item 8. Proposed Rule Change Based on Rules of Another Regulatory Organization or of the Commission**

The proposed rule change is not based on a rule change of another self-regulatory organization.

**Item 9. Exhibits**

Exhibit 1 Completed notice of the proposed rule change for publication in the Federal Register.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

**THE OPTIONS CLEARING CORPORATION**

By: \_\_\_\_\_  
**William H. Navin**  
**Executive Vice President and**  
**General Counsel**



**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34-\_\_\_\_\_ ; File No. SR-OCC-2004-05

**SELF-REGULATORY ORGANIZATION**

Proposed Rule Change By  
The Options Clearing Corporation

Relating to Clarifying the Definition  
of Premium in Respect of Foreign  
Currency and Cross-Rate  
Currency Options

Comments requested within \_\_\_\_\_ days  
after the date of this publication.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15.U.S.C.

'78s(b)(1), notice is hereby given that on \_\_\_\_\_, 2004, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. 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 proposed rule change would amend OCC's By-Laws and Rules to clarify the definition of premium in respect of foreign currency and cross-rate currency options.

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

In its filing with the Commission, the self-regulatory organization 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. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

**Background**

The definitions of “premium” in respect of foreign currency options and cross-rate foreign currency options in the By-Laws and Rules presently contemplate the expression of such premiums in units of the relevant trading currency. “Trading currency” is defined in Article I of OCC’s By-Laws as “the currency in which premium and/or exercise prices are denominated for a class of foreign currency options or cross-rate foreign currency options.” Normally, premium and exercise prices are expressed in the same currency. However, in one situation they are not. The Philadelphia Stock Exchange (“Phlx”), which trades both foreign currency options and cross-rate foreign currency options, permits premiums to be quoted not only in units of the trading currency, but, alternatively, as a percentage of the underlying currency.

As an example, the premium of a USD/EUR contract could be expressed in U.S. cents per euro (a quote of **1.05** =  $\$.0105 \times 62,500$  (the standard EUR contract size) = **\$656.25**), or as a percentage of euro (a quote of **2.05** =  $\text{EUR}.0205 \times 62,500 = \text{EUR } 1281.25$  When premiums are quoted as a percentage of the underlying currency, premiums are also paid in the

underlying currency. In that case, for purposes of premium quotation and settlement only, the “trading currency” is the same as the underlying currency (EUR, in our example). Nevertheless, the exercise price for such options would continue to be stated in terms of a trading currency other than the underlying currency (USD, in our example).

This method of premium quotation and settlement presently occurs only in the case of “flexibly structured options” as defined in Article I of the By-Laws (“flex options”). Nevertheless, OCC wishes to amend the relevant definitions of “premium” in order to make clear that quotation of premiums as a percentage of an underlying foreign currency is permissible, as presently done under the flex options rules.

#### **Proposed Rule Changes**

As noted above, "Trading Currency" is presently defined to mean "the currency in which premiums and/or exercise prices are denominated for a class of foreign currency options or cross-rate foreign currency options." Additional language is proposed to be added in order to clarify the meaning of the term where, as described above, the premium is quoted in the underlying currency and the exercise price in a different currency. In that case, the context will determine whether the reference to "trading currency" is a reference to the premium currency or the currency in which the exercise price is denominated (the "exercise currency"). Where the context could allow any possibility of confusion as to which is meant, OCC is proposing to state expressly which is intended. For this purpose, changes are proposed in the introduction to Article XV of the By-Laws and Chapter XVI of the Rules and to the definitions of "Class of Options" and "Settlement Time" in both Article XV and Article XX of the By-Laws.

The definitions of “premium” in Articles XV and XX of the By-Laws, which are specifically applicable to foreign currency options and cross-rate foreign currency options,

respectively, are amended by adding a new sentence to each in order to make clear that such premiums may be quoted as a percentage of the relevant underlying currency to the extent permitted under Exchange rules. The definitions have also been amended to expressly provide that premiums quoted in units of a trading currency may be quoted in any of (i) fractions, (ii) decimals, or (iii) multiples of units of the relevant trading currency. Further, the marked changes correct an inconsistency between the current Article XX definition of “premium,” which specifically mentions multiples and fractions of the unit of trading currency, and the current Article XV definition of “premium,” which is silent on the point.

The Corporation has taken advantage of this opportunity to clarify and conform, to the extent possible, the definitions of “premium” in respect of foreign currency options and cross-rate foreign currency options. The rule change contains a few other stylistic changes not worthy of comment.

\* \* \*

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Exchange Act because it will promote the prompt and accurate clearance and settlement of securities transactions and, further, removes impediments to the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions; in this case, by clarifying the Corporation’s By-Laws and Rules with respect to quotation and payment of premiums in respect of foreign currency options and cross-rate foreign currency options.

**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**

OCC believes the proposed rule change is appropriate for summary effectiveness because it concerns policies, practices, or interpretations regarding the administration of an existing rule. At anytime within 60 days of the filing of this rule change, the Commission may summarily abrogate this rule change if it appears to the Commission that such action is necessary 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. 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. 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 will also be available for

inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by \_\_\_\_\_.

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

Secretary

Dated: \_\_\_\_\_

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[JRM1]I deleted this because the CCH version of the rules does not show the error that is corrected here. I think we can just correct this obvious typo where it appears without filing it as a rule change.