

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SECURITIES EXCHANGE ACT OF 1934  
Release No. 18588 / March 23, 1982

NOTICE OF FILING AND IMMEDIATE EFFECTIVENESS OF  
PROPOSED RULE CHANGE BY OPTIONS CLEARING CORPORATION

File No. SR-OCC-82-4

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. §78s(b)(1), notice is hereby given that on February 16, 1982, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described herein. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

The proposed rule change would reiterate or modify portions of OCC's margin rules for options on securities that are subject to a cash merger. When a corporation is acquired by cash merger, each share of stock must be converted into an amount of cash specified in the merger documents. Trading in both the security and in any option on the security ceases on or about the effective date of the merger. OCC has adopted special policies for dealing with any unexpired options on securities that are the subject of a cash merger (called "cash options").

Currently, when a cash merger occurs, OCC determines, pursuant to OCC By-Law Art. VI §11, that as of the business day following the effective date of the merger, all short cash options positions become, on exercise, obligations to deliver cash in the amount of the merger price. Thus, the value of an in-the-money option becomes fixed, and the value of an at-the-money option or an out-of-the-money option equals zero.

When trading is terminated in cash options, OCC participants are unable to close out short positions<sup>1</sup> and, therefore, must continue to carry them. OCC Rule 601 requires participants to deposit margin with OCC for any short position equal to 100% (or such greater amount as

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<sup>1</sup> A short position is defined as "a person's interest as the writer (or as an agent for the writer) of one or more option contracts of a series of options." OCC By-Law Art. I §1 (ss).

OCC may from time to time prescribe) of the daily marking price of the option.<sup>2</sup> OCC states that it has followed the practice of valuing in-the-money cash options at the amount of the difference between the cash payable upon exercise and the aggregate exercise price. OCC's proposed rule change would reaffirm this policy and would make it an explicit portion of OCC Rule 601.

OCC states that because of limitations in OCC's computer system, it has followed a policy of valuing at-the-money and out-of-the-money cash options at no less than \$12.50 per contract (*i.e.*, 1/8 of a point). The proposed rule change, however, would change this policy by valuing at-the-money or out-of-the-money cash options at their true value of zero, and would permit OCC to modify its computer system to record this change. Thus, OCC participants would not have to deposit margin for valueless cash options.

Finally, the proposed rule change would make explicit OCC's stated policy of requiring participants carrying short positions in in-the-money cash options to deposit margin at 100% of the daily options marking price, rather than at 130% of the daily options marking price, as is required for regular stock options.<sup>3</sup> OCC believes that because traded stock options are subject to market fluctuation, OCC needs the additional 30% protective cushion. In contrast, because the values of in-the-money cash options are fixed and, therefore have no market risk, OCC believes that it does not need similar protection.

OCC believes that the proposal is consistent with Section 17A(b)(3) of the Act in that it removes impediments to an efficient clearing system by removing certain unnecessary margin requirements. OCC believes that the proposed rule change will have no adverse impact on its ability to safeguard securities and funds in its custody or control or for which it is responsible.

The foregoing rule change has become effective, pursuant to Section 19(b)(3)(A) of the Act and subparagraph (e) of Securities Exchange Act Rule 19b-4. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such 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 Act.

Interested persons are invited to submit written data, views and arguments concerning the submission within 21 days after the date of publication in the Federal Register. Persons desiring to make written comments should file six copies thereof with the Secretary of the Commission, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549. Reference should be made to File No. SR-OCC-82-4.

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<sup>2</sup> OCC states that an option's daily marking price is "roughly equivalent to its market value as of the close of trading on the preceding business day." SR-OCC-82-4 at 4.

<sup>3</sup> OCC has set margin requirements for regular stock options at 130% of the daily options marking price, thus providing OCC with a 30% cushion on each uncovered net short position. *Id.*

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change which are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those which may be withheld from the public in accordance with the provisions of 5 U.S.C. §552, will be available for inspection and copying at the Commission's Public Reference Room, 1100 L Street, N.W., Washington, D.C. Copies of the filing and subsequent amendments also will be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization.

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

George A. Fitzsimmons  
Secretary