

numbers, the total cost of compliance for 7,525 respondents is \$155,203,125 per year.³

General comments regarding the estimated burden hours should be directed to the following persons: (i) Deck Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 3208, New Executive Office Building, Washington, DC 20503; and (ii) Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Comments must be submitted to OMB within thirty days of this notice.

Dated: April 13, 2001.

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44184; File No. SR-OCC-99-12]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Adjustments to Index Options

April 16, 2001.

On November 2, 1999, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-99-12) pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on July 17, 2002.² No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description

The rule change provides for the substitution of a successor index for an underlying index. Because substitution of a successor index for an underlying index may require changes to the terms of outstanding options, the rule change

explicitly grants OCC the authority to make adjustments to such terms as necessary to reflect the substitution. While OCC believes such substitution and adjustment are already implicitly provided for under the provisions of OCC's By-Laws at Article XVII, Section 4 ("Unavailability or Inaccuracy of Current Index Value"), OCC seeks to clarify its authority through the rule change.

New paragraph (d) of Article XVII, Section 3 provides that a successor index may be substituted for an underlying index in the event that the underlying index's publication is discontinued, when the underlying index is replaced with another index, or when an index's composition or method of calculation has so materially changed that it is deemed to be a different index. As in the case of other adjustments, the determination to substitute a successor index and the selection of the index will be made by an adjustment panel. The successor index is to be an index which is deemed to be reasonably comparable to the index for which it substitutes.

Article XVII, Section 3, paragraph (c), which is applicable to adjustments to index options generally, is amended to provide for adjustments as necessary to accommodate a successor index. In addition paragraph (c) is amended to expand the rule in other respects to cover a broader range of potential changes in the calculation of index values and to give added flexibility to OCC in making appropriate adjustments to reflect such changes.

These amendments grant OCC the authority to adjust outstanding options in the event that an exchange increases or decreases the index multiplier for any index option contract or in the event that any change in the method of calculation of an underlying index creates a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the index's constituent securities. Such a change would occur, for example, if the value of an index were reset from 10,000 to 1,000, which would create a discontinuity that would affect all outstanding options.

Changes to Article 1, Section 1 and to Article XVII, Section 1, both definitional sections, are designed to clarify and conform the terminology to usage as it has developed since the index options provisions were originally drafted.

II. Discussion

Section 17A(b)(3)(F)³ 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 and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. For the reasons set forth below, the Commission believes that OCC's proposed rule change is consistent with OCC's obligations under the Act.

The rule change allows OCC to substitute a successor index for an underlying index when the underlying index is no longer viable for use. The rule change also enables OCC to adjust outstanding options in the event that an exchange increases or decreases the index multiplier for any index option contract or in the event that any change in the method of calculation of an underlying index creates a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the index's constituent securities. The rule change refines and amplifies existing OCC rules that have proven effective in promoting the prompt and accurate clearance and settlement of securities transactions and in safeguarding securities and funds. Therefore, the Commission finds that the rule change is consistent with OCC's obligation to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

III. 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-99-12) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.

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Manager) + 35% overhead (based on end-of-year 1998) figures.

³ (1 hour per day x 250 days x 7,525 active, registered broker-dealer respondents) = 1,881,250 total hours per year. (1,881,250 hours x \$82.50 per hour) = \$155,203,125 per year.

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 43022, (July 11, 2000), 65 FR 44089.

³ 15 U.S.C. 78q-1(b)(3)(F).

⁴ 17 CFR 200.30-3(a)(12).