

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

OneChicago has prepared statements concerning the purpose of, and basis for, the proposed rule change, burdens on competition, and comments received from members, participants, and others. The text of these statements may be examined at the places specified in Item IV below. These statements are set forth in Sections A, B, and C below.

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

#### 1. Purpose

OneChicago proposes to amend its block trade rule as set forth in Item I above in order to (i) ensure prompt reporting of information related to block trades and (ii) restrict the ability of market participants to engage in certain transactions related to a block trade until such trade has been reported.

The proposed change to paragraph (c) of OneChicago Rule 417 is designed to tighten the existing requirement relating to the reporting of block trades by market participants and to provide that the requirement applies uniformly to all block trades, regardless of contract type and transaction size. OneChicago believes that obligating market participants to report all block trades promptly is warranted by the important price discovery function that it expects its markets for security futures products will serve. Given that all trading on OneChicago will be conducted electronically, OneChicago does not foresee that market participants will encounter practical difficulties in complying with the tightened reporting requirement.

New paragraphs (e) and (f) to OneChicago Rule 417 are intended to prevent market participants from taking advantage of any non-public information with respect to a block trade, by prohibiting market participants with access to such information from entering orders for execution through OneChicago if such orders relate to the same underlying securities as the block trade in question. This prohibition will generally apply until the block trade in question has been reported to and published by OneChicago. OneChicago expects that a positive side effect of the new paragraphs will be that they create an additional incentive for market participants to report block trades as soon as possible.

#### 2. Statutory Basis

OneChicago is proposing the Proposed Rule Change on the basis of its general rulemaking authority. OneChicago filed the Proposed Rule Change pursuant to Section 19(b)(7) of the Act<sup>5</sup> because such section requires a self-regulatory organization that is an exchange registered with the Commission pursuant to Section 6(g) of the Act<sup>6</sup> to file with the Commission, among other things, copies of any proposed rule change that relates to reporting. The Exchange believes that the proposed rule change is authorized by, and consistent with, Section 6(b)(5) of the Act,<sup>7</sup> because it is designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade.

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

OneChicago believes that the proposed rule change is inherently pro-competitive as it is designed to ensure that (i) relevant market information becomes available to the public as expeditiously as possible and (ii) participants are prevented from taking advantage of any non-public information with respect to block trades.

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

Comments on the proposed rule change have not been solicited.

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

Pursuant to Section 19(b)(7)(B) of the Act,<sup>8</sup> the proposed rule change became effective on September 5, 2002. Within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act.<sup>9</sup>

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change conflicts with the Act. Persons making written submissions should file nine copies of the submission with the

Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Comments also may be submitted electronically to the following e-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). 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. Copies of these filings also will be available for inspection and copying at the principal office of OneChicago. Electronically submitted comments will be posted on the Commission's Internet website (<http://www.sec.gov>). All submissions should refer to File No. SR-OC-2002-2 and should be submitted by November 12, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

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

[FR Doc. 02-26688 Filed 10-18-02; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-46653; File No. SR-OCC-2002-07]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Clearing Security Futures Transactions and Arrangements With Associated Clearinghouses

October 11, 2002.

#### I. Introduction

On May 9, 2002, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change File No. SR-OCC-2002-07 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and on August 9, 2002, amended the proposed rule change. Notice of the proposal was published in the **Federal Register** on August 16,

<sup>5</sup> 15 U.S.C. 78s(b)(7).

<sup>6</sup> 15 U.S.C. 78f(g).

<sup>7</sup> 15 U.S.C. 78(f)(b)(5).

<sup>8</sup> 15 U.S.C. 78s(b)(7)(B).

<sup>9</sup> 15 U.S.C. 78s(b)(1).

<sup>10</sup> 17 CFR 200.30-3(a)(75).

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

2002.<sup>2</sup> On October 10, 2002, OCC again amended the proposed rule change. The October 10, 2002, amendment was for clarification and as such did not require publication of notice. No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

## II. Description

Currently, under OCC's Rule 1303, OCC may open one or more omnibus accounts with an associate clearinghouse ("ACH")<sup>3</sup> for the purposes of enabling the ACH's clearing members that are not OCC clearing members to clear transactions in futures and futures options through the ACH rather than directly through OCC.<sup>4</sup> Affiliates of OCC clearing members are permitted to clear transactions in futures through the ACH through January 1, 2003. The principal purpose of the proposed rule change is to extend this same accommodation to OCC clearing members and to provide that the initial period during which either OCC clearing members or their affiliates may clear through an ACH will end one year from the date when general trading in security futures commences rather than on a specified date. The proposed rule change also seeks Commission approval of the Agreement for Clearing and Settlement Services between OCC and OneChicago ("OCX") ("OCX Clearing Agreement") and the ACH Agreement between OCC and the Chicago Mercantile Exchange ("CME").

### 1. Background

OCC is preparing to clear security futures for a number of markets, including certain national securities exchanges that presently clear options through OCC and certain futures exchanges that are notice-registered as national securities exchanges under section 6(g) of the Act. In SR-OCC-2001-07, OCC filed detailed rules for

the clearance of security futures, including Rule 1303, which provides that OCC may agree with an ACH to carry omnibus accounts for the ACH in which the ACH may clear security futures transactions for certain of its clearing members.<sup>5</sup> In SR-OCC-2001-07, the Commission also approved the Agreement for Clearing and Settlement Services between OCC and Nasdaq Liffe Markets, LLC<sup>6</sup> ("NqLX Clearing Agreement").

### 2. Amendments to Rule 1303

Under current Rule 1303(a), an OCC clearing member that is also an ACH clearing member may not have its futures transactions cleared through the ACH's omnibus account at OCC. Additionally, Rule 1303(b) currently provides that affiliates of OCC clearing members that are eligible to become OCC clearing members may not have their futures transactions cleared through an ACH's omnibus account at OCC past January 1, 2003.<sup>7</sup>

OCC has learned that some OCC clearing members may initially have difficulty clearing futures, including security futures, through OCC because the systems these clearing members use to clear futures contracts are configured to interface with the clearing systems of commodity clearing organizations and not with OCC's systems. To accommodate these clearing members while they make the necessary system changes, OCC is amending Rule 1303(a) to allow OCC clearing members that are members of an ACH to clear their futures transactions through the ACH's omnibus account at OCC for a period of time.

As with affiliates of OCC clearing members, an OCC clearing member's futures transactions can be cleared through an ACH's omnibus account at OCC only for the period specified in Rule 1303(b). That period was initially set to end on June 1, 2002, and was later extended to January 1, 2003.<sup>8</sup> Because the commencement of trading in

security futures has repeatedly been postponed, OCC is now setting the grace period at "one year after the commencement of general trading in security futures." OCC believes that this is a reasonable period of time for OCC clearing members and their affiliates to make the necessary arrangements to clear futures directly through OCC. OCC nevertheless retains the ability under Rule 1303(b) to consent to a longer grace period if the circumstances of individual firms so require.

### 3. OCX Clearing Agreement

OCX is a joint venture among CME, the Chicago Board Options Exchange, and the Chicago Board of Trade. OCX and OCC have entered into the OCX Clearing Agreement so that OCC may clear and settle security futures transactions that take place on OCX.<sup>9</sup> OCC seeks Commission approval of the OCX Clearing Agreement because, as discussed below, it varies in several material respects from the NqLX Clearing Agreement approved by the Commission.<sup>10</sup>

New Section 6(b), "Clearing Members and Associate Clearinghouses," of the OCX Clearing Agreement requires OCC to designate CME as an ACH for OCX, subject to the terms of the ACH Agreement between OCC and CME (which terms are summarized below). The NqLX Clearing Agreement contains no similar provision. Section 6(b) of the OCX Clearing Agreement also provides that all present OCC clearing members and their successors may clear trades executed on OCX. However, future OCC clearing members will not be allowed to clear OCX trades without prior approval from OCX. OCX may require that future OCC clearing members become members of OCX as a condition to being allowed to clear trades executed on OCX. The NqLX Clearing Agreement contains no similar provision.

Section 10(b), "Risk Margin Offsets," of the OCX Clearing Agreement states that OCC will not make OCX products fungible with products traded on other markets, exchanges, or electronic trading platforms unless OCC is required to do so by law or has received prior written approval from OCX. The NqLX Clearing Agreement contains no similar provision.

<sup>9</sup> The OCX Clearing Agreement is attached as Exhibit A to OCC's filing.

<sup>10</sup> A blackline version showing the differences between the NqLX Clearing Agreement and the OCX Clearing Agreement is attached as Exhibit A-1 to OCC's filing. OCC has filed with the Commission an amended and restated version of the NqLX Clearing Agreement, which has been amended to provide that OCC will clear and settle commodity futures (specifically, broad-based index options) traded on NqLX.

<sup>2</sup> Securities Exchange Act Release No. 46335 (August 9, 2002), 67 FR 53634.

<sup>3</sup> "Associate Clearinghouse" is defined in Section 1 of OCC's By-Laws as "a derivatives clearing organization regulated as such under the Commodity Exchange Act or a clearinghouse not located in the United States, which, in either case, has agreed with the Corporation to act in clearing transactions in certain cleared securities on behalf of its members. An associate clearinghouse shall be a Clearing Member for purposes of the By-Laws and Rules except to the extent otherwise provided in an agreement between the Corporation and the associate clearinghouse."

<sup>4</sup> When filed, Chapter XIII of OCC's Rules governed security futures. Subsequently, OCC filed and the Commission approved SR-OCC-2001-16, which amended Chapter XIII so that it now governs futures and futures options, which includes security futures. Securities Exchange Act Release No. 45946 (May 16, 2002), 67 FR 36056 (May 22, 2002).

<sup>5</sup> Securities Exchange Act Release No. 44727 (August 20, 2001), 66 FR 45351 (order approving rules for clearance of security futures.) SR-OCC-2001-07 also amended Article I of OCC's By-Laws to include within the definition of "associate clearinghouse" a "derivatives clearing organization regulated as such under the Commodity Exchange Act."

<sup>6</sup> Previously Nasdaq LIFFE, LLC.

<sup>7</sup> For purposes of Rule 1303, an entity is deemed to be an affiliated entity of a clearing member if the clearing member owns, directly or indirectly, at least 50% of the equity in such entity or if at least 50% of the equity of the clearing member and in such entity is, directly or indirectly, under common ownership. OCC rule 1303(b).

<sup>8</sup> Securities Exchange Act Release No. 45946 (May 22, 2002), 67 FR 36056 [File No. SR-OCC-2001-16].

Section 13, "Financial Arrangements," of the OCX Clearing Agreement states that OCC will charge clearing fees for trades executed on OCX to OCX rather than to clearing members. However, OCX will be required to pass OCC's fees through to OCC clearing member(s) on sides of OCX trades that are cleared directly through OCC.<sup>11</sup> OCX negotiated a discount to the fees OCC normally charges for clearing services in exchange for giving up the right to participate in any year-end fee reductions or rebates. OCX may, however, opt into OCC's regular rebate-eligible fee structure on a prospective basis at any time. The discount is greater for trade sides cleared through CME as an ACH reflecting the fact that CME is sharing the clearing function and the associated risk. OCC will charge no clearing fees when both sides are cleared through CME.

Paragraph (b) of Section 14, "CME as Associate Clearinghouse," of the OCX Clearing Agreement prohibits OCX from soliciting or providing incentives for CME members to clear OCX trades through CME rather than OCC. The reason for this restriction is discussed below in connection with related provisions of the ACH Agreement.

#### 4. ACH Agreement

OCC and CME have entered into the ACH Agreement<sup>12</sup> so that CME may act as an ACH for purposes of clearing and settling transactions of certain CME clearing members executed on OCX. The ACH Agreement provides that CME generally will be treated as an OCC clearing member but with important exceptions. First, Section 2, "CME an Associate Clearinghouse," states that CME may clear through its accounts at OCC only security futures traded on OCX. Second, Section 3, "Applicability of the Rules," makes clear that CME is bound only by certain OCC rules, which generally speaking are those that apply to OCC's clearance and settlement of security futures contracts and to OCC's right to suspend clearing members including an ACH with certain modifications set forth in the ACH Agreement. CME is not subject to OCC's by-laws and rules requiring deposits to OCC's clearing fund and requiring risk margin deposits. Likewise, under Section 6, "Risk Margin; Clearing Fund Contributions; Security Deposits," OCC is not required to contribute to CME's

clearing fund or to post margin with CME.

Given that each clearing organization has credit exposure to the other, OCC and CME have determined that the cost of mutual posting collateral by each with the other would outweigh any benefits to be obtained. Although OCC is exposed to some uncollateralized credit risk with respect to CME (and vice versa), that risk is considered minimal because CME's clearinghouse division is a registered derivatives clearing organization subject to regulation and oversight by the Commodity Futures Trading Commission ("CFTC") and is believed by OCC to be well run and highly creditworthy. Sections 3(c), "Applicability of the Rules," and 10, "Application of Chapter XI of the Rules," of the ACH Agreement provide that if CME fails to deliver securities or funds to OCC, breaches certain of its obligations under the Commodity Exchange Act ("CEA") or the ACH Agreement, or is in such financial or operational difficulty that OCC believes suspension of CME as an ACH is required, OCC may without notice liquidate all positions in the CME ACH omnibus accounts regardless of whether any CME clearing member is in default to CME. OCC may then apply the proceeds from the CME Proprietary Account (described below) against all obligations of CME under the ACH Agreement and the proceeds from the CME Customer Account (described below) against all obligations in that account.

Where both sides of a matched trade are submitted to OCC for the accounts of regular OCC clearing members, CME will have no role in the transaction. Where one side of a matched trade is submitted for the account of a regular OCC clearing member and the other is submitted for the account of a CME clearing member, the CME member's transaction will clear in the ACH account and CME as ACH will be the OCC clearing member on the trade. If both sides of a matched trade are cleared through CME, there will be no effect on the open interest on OCC's books, and OCC will have no obligation on the trade except to the limited extent described below in the case of delivery obligations on physically-settled stock futures. The rights and obligations of CME members with respect to security futures cleared through CME will be determined under the rules of CME, but Section 4(a) of the ACH Agreement requires that CME's rules provide that the terms of security futures cleared by CME will be identical to the terms of security futures cleared by OCC and that

any adjustments to the terms of outstanding contracts must be identical and take effect at the same time to ensure fungibility and maintain a balanced open interest at both clearing organizations.

Section 8, "Allocation of Clearing Responsibilities," of the ACH Agreement is consistent with the terms of OCC Rule 1303 as amended in this filing. It is intended to permit the use of the ACH arrangements by CME members only to the extent that clearing through OCC directly might reasonably impose a hardship. An OCC clearing member that is or that has an affiliate that is a CME clearing member may clear through CME until one year after the commencement of security futures trading, at which point all trades of such entity must be cleared through OCC unless OCC consents to an extension of time. However, where a futures affiliate of an OCC clearing member is substantially larger than the clearing member, OCC has agreed to permit the affiliate to clear through CME indefinitely on the ground that where the principal business of the consolidated entities is a futures business it is inappropriate to compel all security futures clearing to be directed through the securities affiliate.<sup>13</sup> A CME clearing member that is not an OCC clearing member and is not an affiliate of an OCC clearing member may clear its security futures trades through CME indefinitely. By generally requiring firms that are OCC clearing members or that have affiliates that are OCC clearing members to take the necessary steps to clear their security futures activity directly through the OCC clearing member, the ACH Agreement limits the mutual uncollateralized exposure between OCC and CME and minimizes the number of transactions that require coordinated clearance and settlement by two clearing organizations.<sup>14</sup> For the same purpose of minimizing unnecessary use of the ACH arrangement, the OCX Clearing Agreement as noted above prohibits the ACH from soliciting its members to clear transactions through the ACH rather than through OCC.

In order to comply with the customer segregation rules under the CEA, Section 9(a), "Maintenance of CME

<sup>13</sup> Interpretations and Policies .01 to Rule 1303.

<sup>14</sup> In approving OCC's previous ACH arrangement with the Associate Clearing House Amsterdam, the Commission stated, "As a general matter, the Commission believes that OCC-issued options should be cleared through full OCC clearing members and not through intermediaries created only for clearing purposes." Securities Exchange Act Release No. 24832 (August 21, 1987), 52 FR 32377, n.16 [File No. SR-OCC-87-9].

<sup>11</sup> This requirement enables OCC to police "the equitable allocation of reasonable dues, fees, and other charges among its participants" required under section 17A(b)(3)(D) of the Act.

<sup>12</sup> Attached as Exhibit B to OCC's filing.

Accounts,” of the ACH Agreement requires CME to have two accounts at OCC, one for proprietary positions and one for customer positions. Each will function as an omnibus account containing the positions and margin carried by CME members for whom CME acts as an ACH. The “CME Proprietary Account” will carry only transactions of persons whose accounts on the books of the carrying CME clearing member are “proprietary accounts” as defined in CFTC Regulation 1.3(y). The “CME Customer Account” will carry only transactions of customers of CME clearing members and will be subject to the customer protection provisions of the CFTC. In accordance with those provisions, Section 9(b) of the ACH Agreement provides that OCC will have a lien on the positions in the CME Customer Account as security for CME’s obligations to OCC only with respect to positions and transactions in that account. In contrast, OCC will have a lien on and security interest in the positions in the CME Proprietary Account as security for all obligations of CME to OCC under the ACH Agreement.

As noted above, OCC has agreed in Section 4 of the ACH Agreement to perform a limited role in connection with delivery obligations of CME clearing members arising from physically-settled security futures in CME member accounts. CME will require each of its clearing members that trades physically-settled security futures to enter into arrangements satisfactory to OCC through which an OCC stock clearing member will agree to act on the CME clearing member’s behalf for the purpose of settling through the facilities of National Securities Clearing Corporation (“NSCC”) or otherwise delivery obligations arising from maturing security futures contracts in its accounts at CME. Promptly following the close of trading on the last trading day prior to maturity of any series of physically-settled security futures, CME will notify OCC of the identity of each OCC clearing member that will be obligated to receive or to deliver stock on behalf of CME members and the quantity of each underlying stock to be received or delivered. OCC will include these receive and deliver obligations with the other receive and deliver obligations of its clearing members in its reports to NSCC in accordance with OCC Rule 913. In the event that settlement is rejected by NSCC for any reason, settlement will be completed between the delivering and receiving OCC clearing members in accordance with OCC’s rules, but CME will be

responsible to OCC for any loss reasonably determined by OCC to have been incurred by it as a result of an OCC clearing member default in connection with settlements arising from security futures contracts in CME clearing member accounts. OCC will not require the delivering OCC clearing member or receiving OCC clearing member to deposit margin with OCC with respect to settlements attributable to security futures in CME clearing member accounts but will instead look to the credit of CME.

### III. Discussion

Section 19(b)(2) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. For the reasons set forth below, the Commission believes that OCC’s proposed rule change is consistent with OCC’s obligations under Section 17A(b)(3)(F) which requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>15</sup>

By providing a transition period for those OCC members that are also ACH members to adopt their systems to clear securities futures through OCC and by adopting the OCX Agreement and the ACH Agreement, OCC is further establishing itself as a facility capable of providing for the prompt and accurate clearance and settlement of security futures transactions. Accordingly, the Commission finds that the proposed rule change is consistent with OCC’s obligations under section 17A of the Act.

### 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 with the requirements of section 17A of the Act and the rules and regulations thereunder applicable.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-2002-07) be, and hereby is, approved.

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

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

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

[FR Doc. 02-26682 Filed 10-18-02; 8:45 am]

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## DEPARTMENT OF STATE

[Public Notice 4152]

### Notice of Meetings: United States International Telecommunication Advisory Committee Preparations for Various Telecommunication Standardization Meetings

The Department of State announces meetings of the U.S. International Telecommunication Advisory Committee (ITAC). The purpose of the Committee is to advise the Department on policy, technical and operational issues with respect to international telecommunications standardization bodies such as the International Telecommunication Union.

The ITAC will meet to prepare for the February 2003 meeting of the Telecommunication Sector Advisory Group (TSAG) on October 30, November 19, and December 19, 2002 from 9:30 to noon at locations in the Washington, DC area to be determined.

Members of the public will be admitted to the extent that seating is available, and may join in the discussions, subject to the instructions of the Chair. Directions to the meeting location and on which entrance to use may be determined by calling the ITAC Secretariat at 202-647-0965, 202-647-2592 or e-mail to [minardje@state.gov](mailto:minardje@state.gov).

Dated: October 17, 2002.

**Cecily Holiday,**

*Director, Radiocommunication Standardization, Department of State.*

[FR Doc. 02-26852 Filed 10-18-02; 8:45 am]

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## OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

### Request for Public Comment on Review of Employment Impact of United States-Chile Free Trade Agreement

**AGENCY:** Office of the United States Trade Representative, Department of Labor.

**ACTION:** Request for comments.

**SUMMARY:** The interagency Trade Policy Staff Committee (TPSC) gives notice that

<sup>16</sup> 17 CFR 200.30-3(a)(12).