

report with the Commission at the same time that the Exchange notifies the issuer of its non-compliance.

The following Rules have been incorporated from the Exchange's options rules: ISE Rule 100 (Definitions) is being expanded to include equities in the following definitions: Bid, clearing corporation, offer and order; ISE Rule 500 (Designation of Securities) is being amended to accommodate for the newly adopted rules in Chapter 21; and ISE Rules 702 and 703 (Trading Halts and Trading Halts Due to Extraordinary Market Volatility, respectively) are being amended to account for halting trading in equity securities.<sup>47</sup>

The Commission finds that these various proposed ISE rules are consistent with the Act.

#### *L. Accelerated Approval of Amendment No. 1*

The Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after publishing notice of Amendment No. 1 in the **Federal Register** pursuant to Section 19(b)(2) of the Act.<sup>48</sup>

In Amendment No. 1, the Exchange amended proposed ISE Rule 2110 (Minimum Price Variation) to conform with the language of Rule 612 of Regulation NMS and amended proposed ISE Rule 2118 (Trade Modifiers) to incorporate applicable requirements of Rule 611 of Regulation NMS. The Exchange also amended proposed Rule 2106 (Opening Process) to reflect that Stop Orders, Stop Limit Orders, No MPM Orders, Post Only Orders, FOK Orders and IOC Orders cannot participate in the opening process and to add a provision that the System would cease matching orders in a security upon the close of the primary market for that security. In addition, the Exchange changed the term "partial round lot" to "mixed lots" to correspond to the current industry term and clarified corresponding proposed ISE Rule 2105 (Order Entry). The Exchange also added proposed ISE Rule 2120 (Taking or Supplying Securities), which governs situations in which an Equity EAM can, upon receipt of a customer order, take or supply securities named in the order on behalf of itself or related parties.

In Amendment No. 1, the Exchange made certain revisions to the proposed rules to provide for the interaction of

MidPoint Match orders with other orders entered into the ISE Stock Exchange, as described more fully above. The Exchange also revised the text of proposed ISE Rule 2107(d) to clarify that, prior to February 5, 2007, the ISE Stock Exchange will not trade through the best bid or offer of other Trading Centers, while on and after February 5, 2007, the ISE Stock Exchange will not trade through a Protected Quotation. Finally, the Exchange made clarifying changes to the clearing requirements and other proposed rules and made changes to the proposed rules to conform them to the rules filed with the Commission on the Form PILOT relating to MidPoint Match.<sup>49</sup>

The Commission notes that Amendment No. 1 is intended to clarify various provisions of the Exchange's proposed rules. The Commission believes that Amendment No. 1 proposes revisions that are non-substantive in nature and do not raise novel issues, and that Amendment No. 1 is consistent with the Act. Therefore, the Commission finds good cause to accelerate approval of Amendment No. 1, pursuant to Section 19(b)(2) of the Act.<sup>50</sup>

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1, including whether Amendment No. 1 is consistent with the 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 an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-ISE-2006-48 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to Amendment No. 1 to File No. SR-ISE-2006-48. 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. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. 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 Amendment No. 1 to File No. SR-ISE-2006-48 and should be submitted on or before October 25, 2006.

#### **V. Conclusion**

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>51</sup> that the proposed rule change (SR-ISE-2006-48) be, and it hereby is, approved, and Amendment No. 1 is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>52</sup>

**Nancy M. Morris,**  
*Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-54514; File No. SR-OCC-2006-05]

### **Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Expiration Date Exercise Procedures**

September 26, 2006.

#### **I. Introduction**

On April 6, 2006, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-OCC-2006-05 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice

<sup>47</sup> In addition, the Exchange proposes to apply certain of its options rules to the trading of equity securities on the ISE Stock Exchange, as set forth in Appendix A to proposed Chapter 21 of the ISE rules.

<sup>48</sup> 15 U.S.C. 78s(b)(2).

<sup>49</sup> See *supra* note 15.

<sup>50</sup> 15 U.S.C. 78s(b)(2).

<sup>51</sup> 15 U.S.C. 78s(b)(2).

<sup>52</sup> 17 CFR 200.30-3(a)(12).

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

of the proposal was published in the **Federal Register** on August 18, 2006.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

## II. Description

The proposed rule change will amend OCC Rule 805, Expiration Date Exercise Procedure, to reduce the threshold amounts used to determine which equity options are in the money for purposes of "exercise by exception" processing. A conforming change would also be made to OCC Rule 1106, Open Positions, which concerns the treatment of open positions following the suspension of a clearing member.

OCC has for years maintained an "exercise by exception" procedure. Under that procedure, options that are in the money at expiration by more than a specified threshold amount are exercised automatically unless the clearing member carrying the position instructs OCC otherwise. Equity options are determined to be in the money or not in the money based on the difference between the exercise price and the closing price of the underlying equity interest on the last trading day before expiration. In September 2004, in order to streamline expiration processing, OCC reduced the threshold amounts from \$.75 to \$.25 for equity options in a clearing member's customers' account and from \$.25 to \$.15 for equity options in any other account (*i.e.*, firm and market makers' accounts).<sup>3</sup> The September 2004 change, which was implemented at the request of the OCC Roundtable,<sup>4</sup> immediately yielded significant benefits to both OCC and clearing members as evidenced by the fact that the time for submitting exercise instructions was reduced by one to three hours on an average expiration weekend.

Increasing options volumes in 2004 and 2005 prompted the OCC Roundtable to review the threshold amounts used for equity options in an effort to further reduce operational risks and improve expiration processing. Initially, the OCC Roundtable proposed that the threshold amount for all account types be set at

\$.01, but an OCC survey of clearing members found that while 65% of responding clearing members supported such a change, 35% were against it. A second OCC survey determined that 75% of responding clearing members were in favor of and 25% were opposed to changing the threshold amount change to \$.05 for all account types. The OCC Roundtable then requested that OCC establish \$.05 as the threshold amount applicable to equity options exercises for all account types.

In response to this request, OCC analyzed equity options exercise information from the June 2004 through December 2005 expirations. OCC analysis determined from its members that 70% of equity option contracts carried in clearing members' customers' accounts that were in the money by amounts of \$.05 to \$.24 (*i.e.*, the proposed change to the "in-the-money" amount represented by the proposed threshold change) were exercised. OCC analysis also determined from its members that exercise activity in other account types supported the proposed threshold amount change.

OCC surveyed all clearing members to obtain their views and comments on the proposed change to \$.05 as the threshold amount for equity options for all account types. Survey results demonstrated strong support across the membership for the change. Eighty-seven clearing members responded to the survey with sixty-five clearing members (75%) being in favor of the threshold change and 22 clearing members (25%) being opposed.<sup>5</sup> Clearing members supporting the change confirmed the OCC Roundtable's view that such a change would significantly reduce the number of instructions clearing members are currently required to submit at expiration and thereby would shorten the time frame for completing their instructions to OCC.

OCC contacted each firm that expressed opposition to the \$.05 threshold amount change. These firms are generally midsize to small retail clearing members. Their opposition to the change reflected their principal concern that they would have to submit more "do not exercise" instructions. Some indicated concerns about the need to educate customers and about the possibility that commission costs could make an exercise unprofitable.<sup>6</sup> However, all of these firms indicated

that they could adapt to a \$.05 threshold amount if it was supported by the majority of clearing members. OCC further reviewed the positions carried by these firms and determined that, on average, they generally carry positions in fewer than 10 expiring series per expiration that are below the current threshold amount of \$.25. This review led OCC to conclude that the threshold amount change to \$.05 would result in only a slight increase in processing time for these firms and that they would not be unduly burdened by its implementation.

OCC's survey of clearing members also asked firms to provide an estimate of the time they would need to accommodate the threshold change based upon supplied time frames (e.g., 0–3 months or 4–6 months). The majority of firms indicated that they could complete the necessary systems development and customer notifications within six months. OCC contacted every firm that commented on the proposed time frames, and all expressed the view that their efforts would be completed in the six month time period.

The OCC Roundtable has recommended that this change be implemented for the October 2006 expiration. Therefore, OCC requests that the Commission approve the proposed rule change with an effective date of October 1, 2006, and that the Commission authorize OCC to implement the threshold change thereafter based upon its assessment of clearing member readiness. OCC would provide at least ten days advance notice to clearing members of the effective date for the new threshold amounts by information memoranda and by other forms of electronic notice such as e-mail. Additionally, OCC would allow clearing members additional time to complete preparations for the threshold change if necessary.

## III. Discussion

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>7</sup> OCC Rule 805 is based on the assumption that when an option is in-the-money by at least a minimum fixed threshold level, most OCC members and their customers would choose to exercise the option. The rule has the effect, therefore, of reducing the number of exercise instructions that must be submitted to and processed by OCC. As OCC notes in its description of the proposed rule change, if a threshold

<sup>2</sup> Securities Exchange Act Release No. 54306, (August 11, 2006), 71 FR 47853.

<sup>3</sup> Securities Exchange Act Release No. 50178 (August 10, 2004), 69 FR 51343 (August 18, 2004) [File No. SR-OCC-2004-04].

<sup>4</sup> The OCC Roundtable is an OCC sponsored advisory group comprised of representatives from OCC's participant exchanges, OCC, a cross-section of OCC clearing members, and industry service bureaus. The OCC Roundtable considers operational improvements that may be made to increase efficiencies and lower costs in the options industry.

<sup>5</sup> OCC contacted clearing members that did not respond to its survey. These firms expressed no opinion on the matter.

<sup>6</sup> As noted, clearing members are able to instruct OCC not to exercise an expiring equity option.

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

amount is set too low, the result could be that some members would have to submit a greater number of "do not exercise" instructions than they would have to submit if the threshold amount was set at a higher amount. However, the Commission is satisfied that by consulting with an industry advisory group, by surveying its clearing members, and by its analysis, OCC has made a reasoned determination in deciding to set the threshold amount for equity options in all account types at \$.05. Furthermore, we note that OCC consulted with its clearing members to ensure that even those that did not actively support the proposed rule change would not be adversely affected in a significant manner by the new threshold amount. Accordingly, because the proposed rule change is designed to reduce the amount of processing required for in-the-money equity options, we find that it is designed to promote the prompt and accurate clearance and settlement of securities transactions.

#### 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-2006-05) be and hereby is approved.

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

**Nancy M. Morris**,  
Secretary.

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## SMALL BUSINESS ADMINISTRATION

### Notice of NMTC Pilot Loan Program

**AGENCY:** U.S. Small Business Administration ("SBA").

**ACTION:** Notice.

**SUMMARY:** SBA is creating the New Markets Tax Credit (NMTC) Pilot Loan Program. Under this program, certain Community Development Entities will be able to purchase a participation interest in up to 90% of a SBAExpress or CommunityExpress Section 7(a) guaranteed business loan as part of their investment in low-income communities under the New Markets Tax Credit

Program administered by the U.S. Department of Treasury. SBA will use its authority under 13 CFR 120.3 to waive section 120.432(a) of SBA regulations for this pilot program.

**DATES:** *Effective date:* The NMTC Pilot Loan Program will take effect on November 3, 2006.

*Expiration date:* The NMTC Loan Pilot Program will expire on September 30, 2011, unless extended by SBA.

**FOR FURTHER INFORMATION CONTACT:** James W. Hammersley, Director, Loan Programs Division at [james.hammersley@sba.gov](mailto:james.hammersley@sba.gov).

#### SUPPLEMENTARY INFORMATION:

##### New Markets Tax Credit Program

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in entities designated as Community Development Entities (CDEs) by the U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Fund. Substantially all of the qualified equity investment must in turn be used by the CDE to make "qualified low-income community investments," as defined in § 45D(d)(1) of the IRS Tax Code ("QLCI"), which includes a loan made to a "qualified active low-income community business," as defined in § 45(d)(2) of the IRS Tax Code ("QLCI loans"). The credit provided to the investor totals 39% of the investment made by that investor, which may claim the credit against taxable income over a seven-year credit allowance period. In each of the first three years, the investor may claim five percent of the total amount of the NMTC; in the final four years, the investor may claim six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

NMTCs are allocated annually by the CDFI Fund to CDEs under a competitive application process. These CDEs then offer the credits to taxable investors in exchange for stock or a capital interest in the CDEs. To qualify as a CDE, an entity must be a domestic corporation or partnership that: (1) Has a mission of serving, or providing investment capital for, low-income communities or low-income persons; (2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and (3) has been certified as a CDE by the CDFI Fund.

Throughout the life of the NMTC Program, the CDFI Fund is authorized to allocate up to \$16 billion in NMTCs to

CDEs. To date, the CDFI Fund has conducted four rounds of allocations and issued 233 awards totaling \$12.1 billion in allocation authority. The CDFI Fund plans to release its fifth annual NMTC Program Notice of Allocation Availability (NOAA) on December 1, 2006. This NOAA will invite CDEs to compete for NMTC allocations in support of an aggregate amount of \$3.9 billion in qualified equity investments in CDEs.

More information about the NMTC program, including the applicable statutes and regulations, is available at the CDFI Fund's Web site at: [http://www.cdfifund.gov/what\\_we\\_do/programs\\_id.asp?programID=5](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5).

##### SBA's NMTC Pilot Loan Program

SBA will implement a NMTC Pilot Loan Program on the effective date of this Notice. The pilot will encourage lenders, as defined in 13 CFR 120.10 ("Lenders"), that participate in SBA's 7(a) guaranteed loan program to increase the amount of credit, equity and financial services they provide to entrepreneurs and small businesses located in urban and rural distressed communities ("new markets"), and support the President's domestic economic priority of stimulating growth, investment and jobs in new markets, by increasing SBA's support for the NMTC program. New markets are "low-income communities" as defined in § 45D(e) of the IRS Tax Code.

As part of the pilot, SBA will use its authority under 13 CFR 120.3 to waive the regulation that states, "A Lender may not sell any of its interest in a 7(a) loan to a nonparticipating Lender." 13 CFR 120.432(a). This regulation requires that any holder of any portion of an SBA-guaranteed 7(a) loan, as defined in 13 CFR 120.1 and 120.2(a) ("7(a) loan"), other than through a sale in the secondary market, must be a Lender. Waiver of this rule is necessary to allow CDEs that are not also Lenders to hold 7(a) loans. Allowing CDEs to purchase and hold a portion of a 7(a) loan will enable CDEs with NMTC allocations to attract additional participation from Lenders to provide loans, as well as equity financing and financial services to entrepreneurs and small businesses in new markets. Under the pilot, only CDEs holding a NMTC allocation awarded by the CDFI Fund will be allowed to purchase portions of 7(a) loans.

Through the pilot, SBA plans to test a process which permits CDEs to purchase a participation interest in 7(a) loans made by Lenders under either the SBAExpress or CommunityExpress programs, as a means of providing

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