

Regulation through Nasdaq's systems, and Nasdaq can use such information and supply it to the NASD, upon request, as well. This information includes trade reporting data, including order time and sales data captured by the Nasdaq system.

## 2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>8</sup> in general, and with Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

Nasdaq does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

A. By order approve such proposed rule change, or

B. Institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing,

including whether the proposed rule change, as amended, 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 Number SR-NASDAQ-2007-037 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASDAQ-2007-037. 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 also will be available for inspection and copying at the principal office of the Nasdaq. 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 File Number SR-NASDAQ-2007-037 and should be submitted on or before July 5, 2007.

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

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-11369 Filed 6-12-07; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55872; File No. SR-OCC-2007-01]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Credit Default Options

June 6, 2007.

## I. Introduction

On February 13, 2007, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change File No. SR-OCC-2007-01 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> On March 7, 2007, OCC filed an amendment to the proposed rule change.<sup>2</sup> Notice of the proposal was published in the **Federal Register** on March 5, 2007.<sup>3</sup> No comment letters were received. This order approves the proposed rule change as amended.

## II. Description

The purpose of the proposed rule change is to permit OCC to clear and settle credit default options ("CDOs"), which are options related to the creditworthiness of an issuer or guarantor ("reference entity") of one or more specified debt securities ("reference obligation(s)"). CDOs are "binary" options that pay a fixed amount to the holder of the option upon the occurrence of a "credit event" affecting the reference obligations.<sup>4</sup> CDOs will be traded by the Chicago Board Options Exchange ("CBOE").<sup>5</sup>

### Description of Credit Default Options

CDOs are structured as binary options that are automatically exercised and the exercise settlement amount payable if a "credit event" occurs at any time prior to the last day of trading. A "credit event" is generally defined as any failure to pay on any of the reference

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

<sup>2</sup> The March 7, 2007, amendment reflects OCC's determination to seek approval for the credit default option product only and not for binary options in general. Because Amendment No. 1 is technical in nature, the Commission is not republishing the notice of filing for public comment.

<sup>3</sup> Securities Exchange Act Release No. 55362 (February 27, 2007), 72 FR 9826.

<sup>4</sup> "Binary" options (also sometimes referred to as "digital" options) are "all-or-nothing" options that pay a fixed amount if automatically exercised and otherwise pay nothing.

<sup>5</sup> Securities Exchange Act Release Nos. 55251 (February 7, 2007), 72 FR 7091 (February 14, 2007) (notice of filing of proposed rule change); 55871 (June 6, 2007) (order approving proposed rule change) [File No. SR-CBOE-2006-84].

<sup>8</sup> 15 U.S.C. 78f.

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

obligations or any other occurrence that would constitute an “event of default” or “restructuring” under the terms of any of the reference obligations and that the listing exchange has determined would be a credit event for purposes of the CDO. The payout or settlement amount for a single exercised option CBOE CDO will be \$100,000.

*By-Law and Rule Amendments  
Applicable to CDOs*

In order to accommodate trading in CDOs, OCC is adding a new By-Law Article and a new Chapter to its Rules to incorporate several new defined terms and procedures for clearing and settling CDOs.

**1. Terminology—Article I, Section 1 and Article XIV, Section 1 of the By-Laws**

The definition of “expiration time” in Article I of the By-Laws is modified to be a default provision to permit the expiration time to be defined differently for different classes of options. The definition of “option contract” in Article I of the By-Laws is amended to include a credit default option and to provide a more generic definition of “cash-settled option.”

“Adjustment event” is defined in Article XIV by reference to the rules of the listing exchange. Similarly, “credit event” is defined by reference to exchange rules. The terms “credit event confirmation” and “credit event confirmation deadline” are used, respectively, to refer to the notice that must be provided by the listing exchange or other reporting authority to OCC that a credit event has occurred (and that a CDO will therefore automatically be exercised) and to the deadline for receipt of such notice if it is to be treated as having been received on the business day on which it is submitted. Credit event confirmations received after the deadline on the expiration date but before the expiration time will be given effect but may result in delayed exercise settlement.

OCC is also defining the term “exercise settlement amount” in Article XIV for purposes of credit default options. The exercise settlement amount of a credit default option is the amount specified by the exchange on which the option is traded that will be paid in settlement of an automatically exercised option. CBOE has specified the exercise settlement amount for a single CDO as \$100,000. OCC’s proposed definition would permit an exchange to specify a different exercise settlement amount. The exercise settlement amount will be determined by the exchange at the time of listing when the exchange fixes the

other variable terms for the options of a particular class or series.

OCC is replacing the definitions of “variable terms,” “premium,” and “multiplier” in Article I with revised definitions in Article XIV, Section 1 that are applicable to credit default options. The term “class” is also redefined in Article XIV, Section 1. To be within the same class, CDOs must have the same reporting authority, which OCC anticipates will ordinarily be the listing exchange. This is necessary because of the degree of discretion that the reporting authority will have in determining whether a credit event has occurred.

CDOs will be a category of options where exercise is triggered by a discrete event such as a “credit event” affecting the “reference obligations” issued by a “reference entity,” which terms are defined to have the meanings given to them in the rules of the listing exchange. The term “underlying interest” is defined to be the reference obligation(s) with respect to which the credit event will or will not occur.

**2. Terms of Cleared Contracts—Article VI, Section 10(e)**

A new paragraph (e) is added to Article VI, Section 10 so that an exchange is required to designate the exercise settlement amount, expiration date, and exercise price for a series of credit default options at the time the series is opened for trading. Section 10(e) also reminds the reader that credit default options are subject to adjustment under Article XIV.

**3. Rights and Obligations—Article XIV, Section 2**

Article XIV, Section 2 defines the general rights and obligations of holders and writers of credit default options. As noted above, the holder of a credit default option that is automatically exercised has the right to receive the fixed exercise settlement amount from OCC, and the assigned writer has the obligation to pay that amount to OCC.

**4. Adjustments of Credit Default Options—Article XIV, Section 3; Determination of Occurrence of Credit Event—Article XIV, Section 4**

Article XIV, Section 3 provides for adjustment of CDOs in accordance with the rules of the listing exchange. CBOE’s rules provide for adjustment of CDOs in the case of certain corporate events affecting the reference obligations, and OCC proposes simply to defer to the rules and to the determinations of the listing exchange pursuant to its rules. Accordingly, OCC will have no

responsibility for adjustment determinations with respect to CDOs.

Similarly, Section 4 provides that the listing exchange for a class of CDOs will have responsibility for determining the occurrence of a credit event that will result in automatic exercise of the options of that class. The listing exchange has the obligation to provide a credit event confirmation to OCC in order to trigger the automatic exercise.

**5. Exercise and Settlement—Chapter XV of the Rules and Rule 801**

Credit default options will not be subject to the exercise-by-exception procedures applicable to most other options under OCC’s Rules but would instead be automatically exercised at expiration if the specified criterion for exercise is met. The procedures for the automatic exercise of credit default options, as well as their assignment and settlement (including during periods when a clearing member is suspended), are set forth in Rules 1501 through 1505 of new Chapter XV and in revised Rule 801(b).

**6. Special Margin Requirements—Rule 601; Deposits in Lieu of Margin—Rule 1506**

OCC will not initially margin CDOs through its usual “STANS” system. Because of CDOs’ fixed payout feature, further systems development is needed to accommodate these options in STANS. Until such development is completed, OCC has initially determined to require that writers of such options post margin in a fixed amount that will be set at 100% of the fixed exercise settlement amount applicable to each series of CDOs. OCC would have discretion to reduce the requirement to something less than 100% if research, analysis, and experience suggest that a lower percentage is sufficient. Initially, long positions in CDOs will be valued at zero and will provide no offset against margin requirements on shorts. Again, based on research, analysis, and experience, OCC may determine to give some value to the longs. Ultimately, CDOs will be incorporated into the STANS system and will be valued and margined on a risk basis.

OCC does not propose to accept escrow deposits in lieu of clearing margin for credit default options. Therefore, Rule 1506 states that Rule 610, which otherwise would permit such deposits, does not apply to credit default options.

## 7. Acceleration of Expiration Date—Rule 1507

This provision permits OCC to accelerate the expiration date of a credit default option when the option is deemed to have been exercised on any day prior to the expiration date.

### III. Discussion

Section 17A(b)(3)(F) 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.<sup>6</sup> The Commission finds the proposed rule change to be consistent with Section 17A(b)(3)(F) of the Act because it is designed to promote the prompt and accurate clearance and settlement of transactions in, including exercises of, credit default options and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions.<sup>7</sup> These purposes are accomplished by having the clearance and settlement of CDOs take place at OCC and by OCC applying substantially the same rules and procedures to CDOs as it applies to similar transactions in other cash-settled options.

### 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-2007-01) as modified by Amendment No. 1 be and hereby is approved.

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

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-11370 Filed 6-12-07; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55860; File No. SR-Phlx-2007-41]

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Modification of Phlx Rule 185A

June 5, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on May 25, 2007, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Phlx. The Exchange filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which rendered the proposal effective upon filing with the Commission. 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 Phlx proposes to amend Phlx Rule 185A, which clarified the entry, routing and other requirements of certain orders on XLE, the Exchange’s electronic equity trading system, prior to March 5, 2007, the Trading Phase Date,<sup>5</sup> to make certain provisions of the rule applicable until the All Stocks Phase Date.<sup>6</sup> The text of the proposed rule change is available on Phlx’s Web site, <http://www.phlx.com>, at Phlx’s

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> The Trading Phase Date was the “[f]inal date for full operation of Regulation NMS-compliant trading systems [by exchanges] that intend[ed] to qualify their quotations for trade-through protection under Rule 611 [during the roll-out of Regulation NMS].” See Securities Exchange Act Release No. 55160 (January 24, 2007), 72 FR 4202 (January 30, 2007).

<sup>6</sup> The All Stocks Phase Date is the date that full industry compliance with Rules 610 and 611 of Regulation NMS, 17 CFR 242.610 and 611, begins. Currently, the All Stocks Phase Date is scheduled to be August 20, 2007. See Securities Exchange Act Release No. 55160 (January 24, 2007), 72 FR 4202 (January 30, 2007). However, should the Commission change the All Stocks Phase Date, the changes to Phlx Rule 185A adopted in this proposed rule change will remain in effect until that new date.

principal office, and at the Commission’s Public Reference Room.

#### 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 Phlx 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 Phlx 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

###### 1. Purpose

The purpose of the proposed rule change is to clarify the obligation of XLE Participants when submitting certain XLE order types before the All Stocks Phase Date. Phlx Rule 185A, Orders and Order Execution—Temporary, was adopted in November 2006, to clarify the entry, routing and other requirements of certain orders on XLE in the period before the Trading Phase Date.<sup>7</sup> Phlx Rule 185A was subsequently amended twice.<sup>8</sup> Each amendment addressed the period before the Trading Phase Date.

Phlx Rule 185A clarified the routing of orders from XLE to other marketplaces,<sup>9</sup> the entry of Intermarket Sweep Orders and IOC Cross Orders marked by the XLE Participant entering the order as meeting the requirement of an intermarket sweep order,<sup>10</sup> the requirements for certain IOC Cross Orders marked as Benchmark,<sup>11</sup> and the requirements for certain IOC Cross Orders marked as Qualified Continent Trades.<sup>12</sup> At this time, Phlx proposes to delete the provisions of Phlx Rule 185A that applied to routing and modify the remaining provisions of the rule to make them applicable to the period prior to the All Stocks Phase Date.

Specifically Phlx Rule 185A(a) is being modified to delete provisions

<sup>7</sup> See Securities Exchange Act Release No. 54760 (November 15, 2006), 71 FR 67687 (November 22, 2006) (SR-Phlx-2006-76).

<sup>8</sup> See Securities Exchange Act Release Nos. 55044 (January 5, 2007), 72 FR 1361 (January 11, 2007) (SR-Phlx-2006-92) and 54788 (November 20, 2006), 71 FR 68877 (November 28, 2006) (SR-Phlx-2006-77).

<sup>9</sup> See Phlx Rule 185A(a).

<sup>10</sup> See Phlx Rule 185A(b).

<sup>11</sup> See Phlx Rule 185A(c).

<sup>12</sup> See Phlx Rule 185A(d).

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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