

Exchange to request such information upon request, if necessary. In addition, in order to maintain transparency into who is accessing the Exchange's System, the Exchange is also amending Rule 11.3(b)(2) to require Sponsoring Members to maintain a list of Sponsored Participants whom the Sponsoring Member has authorized to obtain access to the System pursuant to Rule 11.3. The amended rule will also provide that the Sponsoring Member shall update the list of Sponsored Participants as necessary, and provide the list to the Exchange upon request. The Exchange also proposes to amend Rule 11.3(b)(3) to require that Sponsoring Members shall comply with all requirements under the Market Access Rule with regard to market access arrangements with Sponsored Participants.

## 2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act<sup>9</sup> and further the objectives of Section 6(b)(5) of the Act,<sup>10</sup> in that they are 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 facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The proposed rule changes are consistent with these obligations because they are designed to eliminate superfluous and unnecessary regulatory requirements, and thereby avoid potential confusion. Additionally, the proposed rule changes are designed to make the Exchange's Rules clearer and more transparent to Members by eliminating provisions that have been rendered superfluous and unnecessary by the Market Access Rule.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange has neither solicited nor received written comments on the proposed rule changes.

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

Within 45 days of the date of publication of this notice or within such longer period (i) as the Commission may designate up to 45 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 or disapprove 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 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-EDGX-2012-24 on the subject line.

#### *Paper Comments*

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

All submissions should refer to File Number SR-EDGX-2012-24. This file number should be included on the subject line if email 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 changes 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will 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 File Number SR-EDGX-2012-24 and should be submitted on or before July 30, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2012-16623 Filed 7-6-12; 8:45 am]

**BILLING CODE 8011-01-P**

## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-67333; File No. SR-OCC-2012-07]**

### **Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Relating to Adjustment Panel Voting**

July 2, 2012.

#### **I. Introduction**

On May 7, 2012, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-OCC-2012-07 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder.<sup>2</sup> The proposed rule change was published for comment in the **Federal Register** on May 24, 2012.<sup>3</sup> The Commission received no comment letters on the proposal. This order approves the proposal.

#### **II. Description**

OCC is updating the procedures applied to adjustment panel voting and eliminating the requirement that an adjustment panel be convened to vote on certain specific types of standard

<sup>11</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 67021 (May 18, 2012), 77 FR 31060 (May 24, 2012).

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

<sup>10</sup> 15 U.S.C. 78f(b)(5).

contract adjustments affecting equity options. These changes are intended to improve overall operational efficiency in responding to events for which a contract adjustment may be made.

Certain panels may be convened under OCC's by-laws to (i) determine contract adjustments to the terms of outstanding options when certain events occur (e.g., stock distribution, stock dividend, merger, consolidation or reorganization) and (ii) fix certain amounts or values in respect of certain options in the event a required value is unreported, inaccurate, unreliable, unavailable, or inappropriate. Such panels are convened in accordance with Article VI, Section 11 of OCC's by-laws and currently consist of two representatives of each options exchange on which options affected by the event are traded and one representative of OCC, who votes only in case of a tie. The decision to adjust (and the nature of the adjustment to be made) or to fix an amount or value is made by majority vote of the adjustment panel. Most often, panels are convened to determine adjustments to the terms of outstanding equity options in response to certain corporate events.

The procedures for panel voting, as described in Article VI, Section 11, have not been updated for over 25 years. In the past, a smaller number of OCC options exchanges posed few problems in convening panels to consider adjustments for equity options. Currently, however, there are ten options exchanges and multiple listing of equity options on several, if not all, exchanges is common. It is increasingly difficult to convene two members from each exchange to consider adjustments on a timely basis. This difficulty is magnified when it is necessary to convene panel meetings to address late-breaking events which often occur outside of normal business hours. Additionally, although all equity option adjustments must currently be addressed by an adjustment panel, certain corporate events and their corresponding option adjustments are so regular and predictable that it no longer appears necessary for an adjustment panel to be convened to address them.

The OCC Securities Committee has unanimously endorsed the proposed changes and OCC's Board of Directors and stockholders have authorized OCC to submit the proposed rule change. OCC is continuing to evaluate the rules applicable to adjustment determinations and additional changes may be proposed in the future.

#### *Proposed By-Law Changes*

OCC is making several changes to the voting procedures for the Securities Committee and adjustment panels. OCC believes the changes will provide significant operational efficiencies, allowing OCC and the option exchanges to respond more quickly to corporate events affecting listed options. The changes to the procedures governing adjustment panel voting (1) change the requirement that each exchange be represented by two persons to one person,<sup>4</sup> (2) allow that adjustment panel actions be determined by votes accomplished by such means as the Securities Committee may designate for that purpose, (3) provide that certain kinds of corporate events shall not require an adjustment panel vote, (4) define a quorum for adjustment panels and provide for majority vote,<sup>5</sup> and (5) allow the Chairman of OCC to designate a non-officer as his representative on adjustment panels.<sup>6</sup>

The specific corporate events which would no longer require a panel vote to effect an adjustment to the terms of an option would be limited to stock splits or stock distributions where additional shares of the underlying security are issued, reverse splits, and cash mergers or similar events where all shares are exchanged exclusively for cash. Adjustments for stock splits, stock

<sup>4</sup> Panels convened by OCC to fix a required amount or value (as provided for in the by-laws) would continue to include two representatives from each exchange on which the affected series is open for trading. (Such panels also include an OCC representative, who votes only in case of a tie.) OCC believes it appropriate to retain this requirement as the need to fix such amount or value generally would involve series that are less likely to be traded on multiple exchanges. However, certain of the procedural changes being made to Article VI, Section 11 will be applied to the by-laws that permit panels to be convened to fix a required amount or value in order to improve efficiency. These changes include eliminating the requirement that at least one panel member from an exchange be a member of the Securities Committee and allowing such panels to transact its business by such means as determined by the Securities Committee.

<sup>5</sup> The intent is to ensure that any adjustment decision is determined by a majority of the exchanges (including a representative of OCC if a voting member) that trade the affected option. For example, if eight exchanges trade an option, five exchanges would constitute a quorum for an adjustment panel. However, a majority vote of these five exchanges would require only three exchanges. In this case an adjustment decision would be determined by a distinct minority of the exchanges trading the option. Specifying an additional requirement that the action be determined by a majority of the exchanges trading the option provides for an additional level of assurance that a majority of eligible voting members will determine an adjustment.

<sup>6</sup> Currently, the Chairman is allowed to designate an OCC officer as his representative. OCC believes the Chairman should be able to designate a non-officer as his representative.

distributions, and reverse splits are generally the most routine option adjustments executed by OCC. Option adjustments for these events, when executed, are the result of well understood formulae and consistent precedent. The Securities Committee does not believe it is necessary to convene adjustment panels for "boiler plate" adjustments of this kind. In like manner, mergers and other events where the affected security is exchanged exclusively for cash have always occasioned option adjustments which have called for the delivery of cash. The Securities Committee does not believe it necessary to convene panel meetings to authorize these adjustments.

While an adjustment panel vote would not be required in these cases, an adjustment panel could be convened at any time at the request of any exchange or OCC in order to address any aspect of the corporate event or option contract adjustment deemed to need discussion by such panel. Also, in all cases of option adjustments, OCC and the exchanges would naturally coordinate the operational execution of the adjustments (effective date, option symbol, strike prices, etc).

The changes also allow convened panels the ability to conduct their business by any means determined by the Securities Committee. Currently, the Securities Committee and panels are allowed to conduct business in person or by phone. For the purposes of exchanging information and registering votes, OCC and the Securities Committee believe that electronic means of communication (e.g., email) should also be allowed as well as other means of communication which may be available in the future (e.g., OCC systems applications developed for this purpose).

#### **III. Discussion**

Section 19(b)(2)(B) 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.<sup>7</sup> Section 17A(b)(3)(F) of the Act requires that a clearing agency, among other things, have the capacity to facilitate the prompt and accurate clearance and settlement of securities transactions for which it is responsible.<sup>8</sup>

The Commission finds that the proposed change is consistent with the purposes and requirements of Section

<sup>7</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

17A of the Act<sup>9</sup> and the rules and regulations thereunder applicable to OCC. In particular, the Commission believes that the proposed change provides for more efficient procedures that further the purposes of the Act by facilitating the prompt and accurate clearance and settlement of securities transactions for which OCC is responsible.

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>10</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (File No. SR-OCC-2012-07) be, and hereby is, approved.<sup>12</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

**Kevin O'Neill,**

*Deputy Secretary.*

[FR Doc. 2012-16625 Filed 7-6-12; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67332; File No. SR-EDGA-2012-27]

### Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing of Proposed Rule Changes To Amend EDGA Rules Regarding Market Access

July 2, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 22, 2012, the EDGA Exchange, Inc. (the "Exchange" or "EDGA") filed with the Securities and Exchange Commission (the "Commission") the proposed rule changes as described in Items I and II below, which items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

<sup>9</sup> 15 U.S.C. 78q-1.

<sup>10</sup> 15 U.S.C. 78q-1.

<sup>11</sup> 15 U.S.C. 78s(b)(2).

<sup>12</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

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

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

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 11.3 to (1) delete those provisions that the Exchange believes have been rendered superfluous and unnecessary in light of the adoption by the Commission of Rule 15c3-5 under the Act; and (2) add a requirement for Sponsoring Members<sup>3</sup> to maintain a list of Sponsored Participants<sup>4</sup> which the Sponsoring Member has authorized to obtain access to the Exchange's System,<sup>5</sup> and to provide the list of Sponsored Participants to the Exchange upon request. The Exchange is also proposing amendments to Rule 11.3(b)(1) and Rule 1.5(z) to align the definition of Sponsored Participant with the terminology used in Rule 15c3-5 to describe such arrangements.

The text of the proposed rule changes is attached as Exhibit 5 and is available on the Exchange's Web site at [www.directedge.com](http://www.directedge.com), at the Exchange's principal office and at the Public Reference Room of the Commission.

### 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 Exchange included statements concerning the purpose of, and basis for, the proposed rule changes and discussed any comments it received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization 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

##### Background on Market Access Rule

On November 3, 2010, the Commission adopted Rule 15c3-5 (the "Market Access Rule"). The Market Access Rule governs risk management controls by broker-dealers with market access. The Market Access Rule had an effective date of January 14, 2011, with phased-in compliance dates of July 14, 2011, and November 30, 2011.<sup>6</sup>

<sup>3</sup> As defined in EDGA Rule 1.5(aa).

<sup>4</sup> As defined in EDGA Rule 1.5(z).

<sup>5</sup> As defined in EDGA Rule 1.5(cc).

<sup>6</sup> See Securities Exchange Act Release No. 63241 (November 3, 2010), 75 FR 69792 (November 15, 2011) [sic] (File No. S7-03-10). See also Securities

Among other things, the Market Access Rule requires that any broker-dealer with market access,<sup>7</sup> or that provides a customer or any other person with market access, must establish, document and maintain a system of risk management controls and supervisory procedures that are reasonably designed to manage the financial, regulatory and other risks of this business activity. These controls include financial risk management controls reasonably designed to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker-dealer itself, and to prevent the entry of erroneous orders. In addition, the Market Access Rule requires certain regulatory risk management controls that, among other things, prevent the entry of orders unless compliance with applicable regulatory requirements has been satisfied on a pre-order entry basis, and restrict access to trading systems and technology that provide market access to persons and accounts that have been pre-approved and authorized by the broker-dealer. These regulatory risk management controls also include measures designed to prevent the entry of orders for a broker-dealer, customer or other person if such person is restricted from trading those securities, and to assure that appropriate surveillance personnel receive immediate, post-trade execution reports that result from market access.

These risk management controls and associated supervisory procedures must be under the direct and exclusive control of the broker-dealer that is subject to the Market Access Rule. While a broker-dealer can use third-party providers to satisfy some or all of these requirements, the broker-dealer is nonetheless required to ensure that whatever technology or other services are provided by such third-parties are under such broker-dealer's direct and exclusive control.

##### Rule 11.3(b): Sponsored Participants

Rule 11.3(b) sets forth the requirements for Sponsored Participants to obtain authorized access to the

Exchange Act Release No. 64798 [sic] (June 27, 2011), 76 FR 38293 (June 30, 2011) (File No. S7-03-10) (providing limited extension of compliance date for certain requirements); Securities Exchange Act Release No. 65132 (August 15, 2011), 76 FR 51457 (August 18, 2011) (exempting floor broker operations of certain broker-dealers with market access from automated controls requirement of Rule 15c3-5).

<sup>7</sup> The term "market access" is defined in Rule 15c3-5(a)(1) to include, *inter alia*, access to trading in securities on an exchange or alternative trading system ("ATS") as a result of being a member or subscriber of the exchange or ATS, respectively.