



## **ISG LOPR working group notice to SIFMA on LOPR changes**

### **Summary**

New automated reporting requirements for filing Large Option Position Reports (LOPR) for listed options and OTC options, Stock Index and Currency Warrants, LOPR Hedges and Aggregation of Accounts Acting In Concert data become effective on February 12, 2010.

The ISG LOPR working group which includes representation of the following SROs: American Stock Exchange (AMEX), Boston Stock Exchange (BOX), Chicago Board Options Exchange, Inc. (CBOE), International Securities Exchange (ISE), NASDAQ Options Market (NOM), NYSE Arca (NYSE), Philadelphia Stock Exchange (PHLX) and The Financial Industry Regulatory Authority (FINRA), formerly NASD, has requested that OCC complete a rewrite of SIAC's LOPR system and is thus planning a transition to OCC as the central hub for LOPR processing.

### **Benefits to the firms and exchanges due to the changes**

- LOPR will become compliant with the ongoing Options Symbology Initiative (OSI)
- LOPR will be written in FIXML
- OCC will become the central repository for In Concert Account Data from firms, and firms can directly file the data with OCC, and not through CD-ROM or emails to the Exchanges.
- There will be a reduction in the number of record types
- Futures will be accommodated as a Hedge Instrument
- Currency Warrants and Equity Warrants will be accommodated
- Rejected LOPRs and Rejected In Concert Data will be generated in FIXML
- Overall process will be streamlined, allowing firms to add, modify or delete LOPR positions
- The contents of the LOPR file will be identical for each exchange

### **Timelines and Testing**

The ISG has requested that OCC complete the LOPR Rewrite project by the end of the 3<sup>rd</sup> Qtr 2009 at which point the environment should be in production, allowing members to cut over to the new environment. The cut-over of the entire member community and discontinuance of the SIAC LOPR service should than be completed prior to the OSI readiness date, currently scheduled for February 12, 2010.

The Milestones are listed below:

### **Large Options Positions Report – Milestones for SIFMA**

- Target Date: July 31, 2008 - Introduce SIFMA to the ISG high level consensus requirements document

- Target Date: September 1, 2008 - Complete SIFMA Review of the ISG high level consensus requirements document
- Target Date: September 1, 2008 - Record layouts, process flows, report samples and procedures will be published by OCC in the form of reference guides
- Target Dates: **Late 3<sup>rd</sup> Quarter 2009** - Begins testing period for connectivity testing from participants to OCC.
- Target Date: 4<sup>th</sup> Quarter 2009 – Begin to accept format testing of LOPR data from firms.
- Target Date: 4<sup>th</sup> Quarter 2009 - Begin to accept dual submission of LOPR data from firms.
- Target Date: November 23, 2009 – All firms should start dual submission of LOPR data to SIAC and OCC no later than this date.
- Target Date: January 15, 2010 – Last date for firm submission of LOPR data to SIAC.
- Target Date: January 19, 2010 – First date for OCC only submission of LOPR data.

### **Firm connectivity / OCC Membership**

Firms required to submit LOPRs that have a secure connection to OCC will be allowed to submit LOPRs in a batch mode in FIXML format.

Some firms required to submit LOPRs to OCC are not required to be OCC Clearing Members. OCC must make arrangements with those non-OCC Clearing Members so they may be recognized by OCC's database as Non-Clearing Organizations. This will permit non-clearing SRO members to comply with their SRO reporting obligations.

### **Data validation / Record Processing**

All LOPRs submitted to OCC will be subject to predefined validations and a daily cut-off time.

Any LOPR submitted to OCC that fails a validation will be rejected. Each submitter will be required to receive their rejected LOPRs. The submitter may choose to electronically receive their rejected LOPRs in FIXML format and/or a report format.

LOPRs received after the cut-off time will be queued for processing the following business day.

Each LOPR record will instruct OCC to take one of the following actions:

- Add a brand new LOPR
- Modify the quantity on an existing LOPR (increase or decrease allowed)
- Delete an existing LOPR

If an Add record is submitted for a pre-existing LOPR, the Add will be rejected.

If a Modify record is submitted and a pre-existing LOPR cannot be found, the Modify will be rejected.

If a Modify record is submitted, the pre-existing LOPR is found and the position quantity/Effective Date are identical, the Modify will be rejected as a duplicate.

If a Delete record is submitted and a pre-existing LOPR cannot be found, the Delete will be rejected.

The Delete record allows the submitter to indicate if the position was closed due to a correction.

LOPRs received prior to the cut-off time and pass all validations will be applied to OCC's LOPR database.

A firm is allowed a certain number of business days to submit a LOPR. This number is referred to as T-Plus and is determined by the ISG. The date a LOPR is established or modified is known as the Effective Date (sometimes referred to as Trade Date) and will be supplied by the firm on each LOPR record. The Effective Date supplied on a LOPR must be greater than or equal to the submission date minus the number of business days as defined by T-Plus. If a LOPR is submitted with an Effective Date older than the date submitted minus the T-Plus quantity, the system will reject submission of that LOPR.

Due to the above requirement, OCC must accept LOPR submissions for a listed option series that has expired or has undergone a corporate action within the T-Plus period.

The Effective Date supplied on a LOPR Add will be stored at OCC as the Original Effective Date for that LOPR. This date will not change for the life of the LOPR.

The Effective Date supplied on a valid LOPR modify will be stored at OCC as the Last Effective Date, to signify the last time the position was updated at the firm.

The Effective Date supplied on a LOPR modify can not be earlier than the Original Effective Date or the Last Effective Date for that LOPR. The modify request will reject in this scenario.

Regardless of the submitting entity, any firm identified as the holder of a LOPR must be recognized by OCC for validation and reporting purposes. If OCC does not have the firm identified in a LOPR record on its database, the record will be rejected.

### **LOPR reporting types**

- LOPRs may be submitted for **listed options**. OCC will validate the option and series information supplied. Since a submitted LOPR's Effective Date may be in the past, OCC must have a sufficient history of valid series available to perform the validations. The history of listed option series available must be equal to the T-Plus quantity of business days. For example, if T-Plus is equal to 3 days OCC will validate that a listed option series for a submitted LOPR is currently valid or was valid within the last 3 business days. Please note that Equity/Index Expiration Saturday is not considered a valid business date for LOPR purposes.
- LOPRs may be submitted for **stock index or currency warrants**. OCC will accept currency and index warrants as part of this effort. OCC will validate the warrant product and series information supplied on a submitted LOPR. The number of index warrant products is currently three and the number historically is very low. When an exchange has a new warrant contract for OCC to list, the exchange must contact OCC to add the warrant to its product and series master file. As with listed options, the history of warrant series available must be equal to the T-Plus quantity of business days.
- LOPRs may be submitted for **OTC options**. OCC does not maintain a product master file or a history of OTC option series and will only be able to validate the format of the series supplied, not that the OTC option series actually exists. If the OTC option series expiration date for a submitted LOPR is greater than the T-Plus quantity, OCC will reject the LOPR. Firms must supply OCC with an underlying symbol and shares per contract for OTC options.
- LOPRs may be submitted for two types of **hedge instruments**: equities and futures. OCC is not required to validate the equity or future contract information supplied on a submitted LOPR.

Therefore, OCC will only validate the format of the hedge instrument supplied, not that the equity or future contract actually exists. If the future contract expiration date for a submitted LOPR is greater than the T-Plus quantity, OCC will reject the LOPR.

### **Required Data Elements**

Each submitted LOPR requires the following data elements. The absence of one or more of these elements will cause the LOPR to reject.

- Submitting Firm ID
- Account Number
- Account Type
- Account Name/Address/Country (acct type Customer only, optional for Firm)
- Derivative Symbol/Type (additional elements will be required depending on the Derivative Type)
- Position Quantity/Type
- Position Effective Date
- Underlying Symbol/Shares per Contract (OTC options only)

The absence or inaccuracy of any of these elements will not cause the LOPR to reject.

- Tax Purposes Number/Type
- CRD Number
- Aggregation Unit
- Branch

### **Submission of In Concert Groups to OCC**

Firms that have a secure connection to OCC will be allowed to submit In Concert Groups in a batch mode in FIXML format.

Firms that submit In Concert Groups to OCC are not required to be OCC Clearing Members. Non-Clearing Members may submit In Concert Groups to OCC.

All InConcert Groups submitted to OCC will be subject to predefined validations and a daily cut-off time.

Any In Concert Group record submitted to OCC that fails a validation will be rejected. The submitter will be required to receive their rejected In Concert Groups. The submitter may choose to electronically receive their rejected records in FIXML format and/or a report format.

In Concert Group records received after the cutoff time will be queued for processing the following business day.

Each In Concert Group record will instruct OCC to take one of the following actions:

- Add a brand new In Concert Group

- Delete an existing In Concert Group

If an Add record is submitted for an existing In Concert Group, the Add will be rejected.

If a Delete record is submitted and an existing In Concert Group cannot be found, the Delete will be rejected.

In Concert Group records received prior to the cut-off time and pass all validations will be applied to OCC's In Concert database for that evening's processing.

Each submitted In Concert Group requires the following data elements. The absence of one or more of these elements will cause the In Concert Group record to reject.

- Firm
- Branch
- Account Number
- In Concert Number
- In Concert Controlling Entity

The absence or inaccuracy of any of these elements will not cause the In Concert Group record to reject.

- Tax Purposes Number/Type

Firms electing to send In Concert Groups must have a secure electronic connection to OCC established.

OCC's Member Services department (800-544-6091) will coordinate the setup requirements for all connections, file names and testing.

### **Conversion Requirements**

OCC's new LOPR database and In Concert Account database will each require firms to provide add records for data population. Firms will be testing with OCC on an individual basis during a transition period. Once testing has been deemed successful, each firm will begin adding their LOPRs and In Concert accounts.

The ISG has requested that OCC have the ability to initialize a specific firm's LOPRs for the purpose of allowing a firm to refresh its LOPRs. This will aid in the case where an exchange believes the firm's data is mostly inaccurate. After OCC initializes a specific firm's LOPRs, the exchange will then ask the firm to provide OCC with new add records in the hopes the new batch of LOPRs is more accurate. In practice, OCC will only perform this initialization of a firm's LOPRs during the transition period.

### **Deployment Considerations**

OCC and the ISG will coordinate the implementation of the LOPR Rewrite project. An implementation strategy has yet to be established. The LOPR subgroup is currently discussing the possibility of running the new LOPR system at OCC concurrently with the current LOPR process at SIAC for a period of time. During this period, firms continue to supply SIAC with their LOPRs and provide to the SROs their In Concert Account data while at the same time they begin to send OCC their LOPRs and In Concert Account data. SIAC will process as normal, still transmitting the five LOPR files to the exchanges. This will allow LOPR processing via SIAC to run uninterrupted yet also allow firms and exchanges to adapt to

the new OCC LOPR process. SIAC will be viewed as production until all firms and exchanges have successfully transitioned to OCC's process. This proposed implementation strategy is still in the very early stages of discussion. Once a proposed implementation strategy is approved, OCC will propose a more detailed external testing strategy.

With ISG approval, OCC will publish the system documentation necessary for firms and exchanges to adopt the new LOPR procedures and records layouts.

### **Decommission Requirements**

It is expected that a firm will continue to supply SIAC with its LOPR submissions and In Concert data while that firm parallels the same submissions in new formats with OCC.

Once all firms have successfully converted to OCC formats and procedures, the firms may eliminate the submission of LOPRs and In Concert Account data to SIAC.

While firms are converting to the new formats and procedures, the exchanges will be receiving the new LOPR file from OCC as well as receiving the existing files from SIAC.

Once all firms and exchanges have successfully converted to OCC formats and procedures, SIAC may decommission the transmission of LOPR files to the exchanges.

### **Frequently Asked Questions**

(Pending discussion with SIFMA)

### **Contacts**

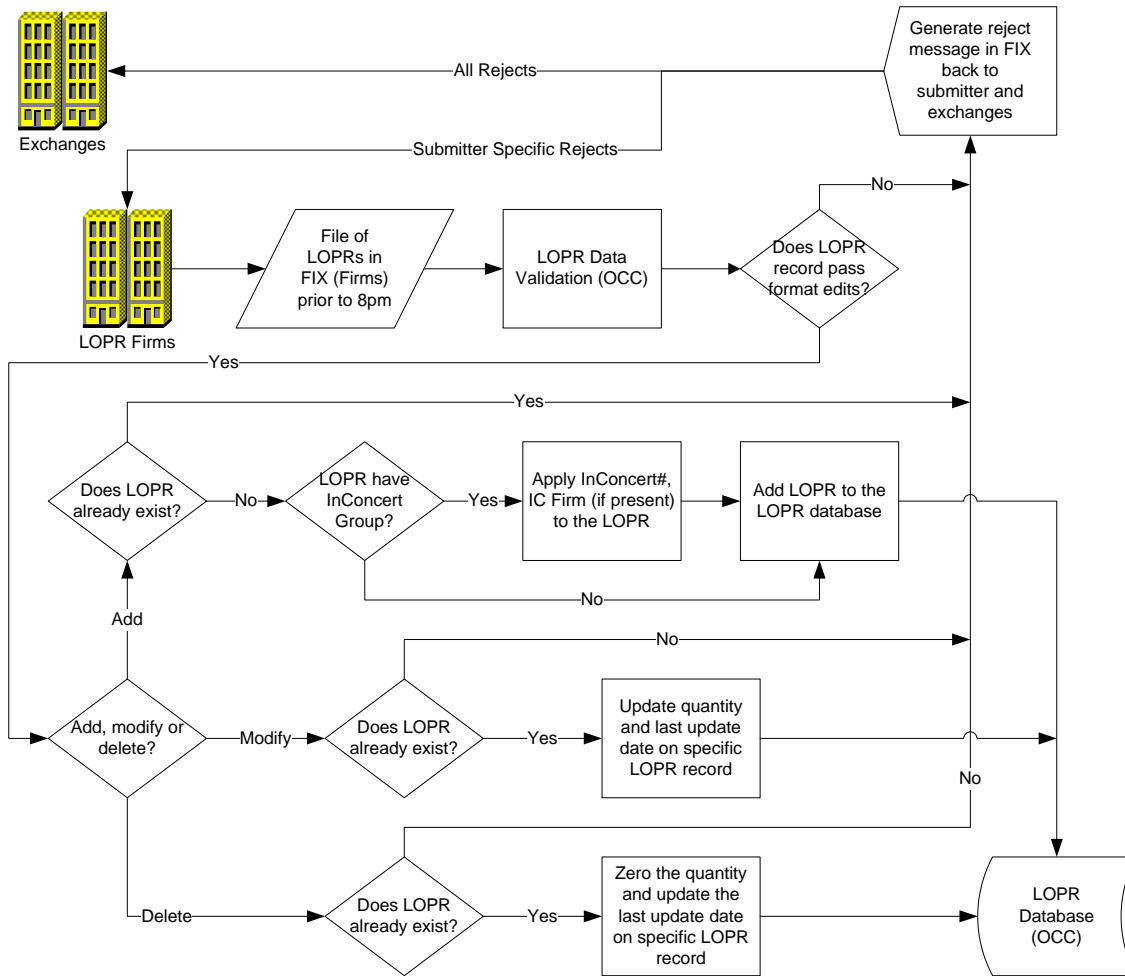
Tom Busch, Chicago Board Options Exchange, Inc, at (312) 786-7753, [busch@cboe.com](mailto:busch@cboe.com)

Gary Grey, FINRA, at (212) 306-1546, [gary.grey@finra.org](mailto:gary.grey@finra.org)

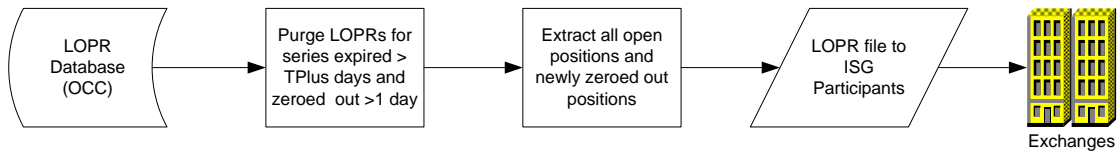
OCC Member Services at (800) 544-6091

# Appendix A – Future Business Processes

## LOPRs to OCC / Return of Rejected LOPRs



## LOPR Processing and Transmission to Exchanges



InConcert Records to OCC / Return of Rejected InConcert Records

