

**EXHIBIT 5****OTC Options Auction Procedures****OTC Options Auction**

To facilitate the liquidation of positions in OTC Index Options and related positions in other cleared contracts and margin assets (including any securities underlying a stock loan or borrow position in which the Corporation has a security interest but not the stock loan or borrow positions themselves) (all such positions being collectively referred to herein as “OTC positions”) of a suspended OTC Index Option Clearing Member, as defined in the By-Laws of the Corporation (an “OTC Member”), the Corporation may determine to hold an OTC Options Auction as provided in Rule 1106(e)(2). Any such auction (the “Auction”) will be conducted in accordance with the procedures described below, which are incorporated by reference in Rule 1106(e)(2) and constitute a part thereof.

**OTC Options Auction Participants**

All OTC Members other than a suspended OTC Member must participate in the Auction (each referred to hereafter as a “Participant”). In addition, other persons who are “eligible contract participants” (as defined in the Securities Exchange Act of 1934) and otherwise eligible to hold positions in OTC Index Options may also submit bids in an Auction by making appropriate arrangements with a Participant.

**Required Participation Level**

Each Participant shall be assigned a minimum percentage of the Auction Portfolio (as defined below) in respect of which the Participant will be required to submit one or more bids to purchase or assume in the Auction. This “Minimum Participation” level in the Auction for each Participant will be determined by calculating the Participant’s proportionate share of the total “risk margin” requirement of OTC Members with respect to accounts eligible to hold OTC positions (“OTC Eligible Accounts”) after removing the suspended OTC Member. The total risk margin requirement will be calculated as the sum of the average daily margin requirement, consisting of the amount of margin held by OCC with respect to an OTC Member’s OTC Eligible Accounts in excess of the net asset value (“NAV”) of the positions held in such OTC Eligible Accounts, for each OTC Member for the previous month across all positions in all OTC Eligible Accounts of such OTC Member. Each Participant’s pro rata share is determined by dividing the Participant’s own average daily risk margin requirement for the preceding month by the total average daily risk margin requirement of all Participants (excluding the suspended OTC Member’s average daily risk margin requirement). To illustrate, below is an example with 5 OTC Members. Assuming a default by Firm D, the risk margin requirement breakdown and proportionate share of the risk margin requirement before and after Firm D’s default will be:

OTC Member	Previous month's avg. daily risk margin req.	Pre-default share	Post-default share ("Minimum Participation")
Firm A	\$20,000,000	20%	40%
Firm B	\$12,000,000	12%	24%
Firm C	\$4,000,000	4%	8%
Firm D	\$50,000,000	50%	Default
Firm E	\$14,000,000	14%	28%
Total	\$100,000,000	100%	100%

### **Auction Information**

Prior to the Auction, the Corporation will calculate the Minimum Participation for each Participant and make such information available to the Participant, provide details of the OTC Index Options positions and other positions that may be hedging, or hedged by, OTC Index Options contained in the suspended OTC Member's portfolio (the "Auction Portfolio") and provide the calculated NAV of the Auction Portfolio based upon the Corporation's marking prices. (The NAV may be positive or negative.) The Corporation may determine to divide the suspended OTC Member's portfolio into more than one Auction Portfolio and auction the separate Auction Portfolios in separate Auctions, each of which will be conducted in the same manner.

### **Minimum Bid Size**

Each Participant will be required to submit one or more bids for a portion of the entire Auction Portfolio with a required total minimum bid size equal to 1.15 x the Participant's Minimum Participation, up to a maximum of 100% of the Auction Portfolio (the "Minimum Bid Size"). (Note that the Minimum Bid Size refers to the minimum percentage of the portfolio that the Participant is required to bid on and not a minimum bid price. There is no minimum bid price.) Each Participant may submit up to 4 bids at varying quantities and varying prices such that the aggregate size meets the Minimum Bid Size. Participants may also utilize bids from clearing members and non-clearing members that are "eligible contract participants" in order to meet their Minimum Bid Size, provided that the Participant has such agreements in place with the clearing member or non-clearing member as required by the Corporation and guarantees the performance of the non-clearing member.

### **Bid Price**

Each Participant will submit its bid(s) indicating for each bid the percentage of the Auction Portfolio it is bidding on and the amount of the bid (which may be positive or negative), such that each bid indicates, in the case of a negative bid, how much the Participant would be entitled to receive from the Corporation or, in the case of a positive bid, how much the Participant would be required to pay to the Corporation, to assume or acquire the relevant percentage of the Auction Portfolio. Bids will be expressed in terms of a price for the entire Auction Portfolio. The Corporation will rank bids from best to worst and the Auction Portfolio will be allocated in segments to Participants from the best bid to the worst bid until the entire Auction Portfolio is

allocated. The bid price that ultimately clears the entire Auction Portfolio will become the single price that determines the amount that all winning Participants will receive or pay (the “Clearing Price”); *i.e.*, all Participants with fulfilled bids will receive or pay the Clearing Price even if a Participant’s stated bid was better.

For example:

Assuming a default by OTC Member Firm “D” with an OTC Index Option portfolio having a NAV of (\$35,000,000), the remaining OTC Members submit the following bids:<sup>1</sup>

Firm A:	25% at \$40,000,000; 25% at \$50,000,000; 50% at \$80,000,000
Firm B:	27.6% at \$45,000,000
Firm C:	9.2% at \$100,000,000
Firm E:	32.2% at \$75,000,000

Based on bids submitted, they would be ranked in the following order:

1. Firm A: 25% at \$40,000,000
2. Firm B: 27.6% at \$45,000,000
3. Firm A: 25% at \$50,000,000
4. Firm E: 32.2% at \$75,000,000 (this becomes the Clearing Price)
5. Firm A: 50% at \$80,000,000
6. Firm C: 9.2% at \$100,000,000

Resulting winning allocations:

1. Firm A: 50% at \$75,000,000
2. Firm B: 27.6% at \$75,000,000
3. Firm E: 22.4% at \$75,000,000

### **Liquidation Deficiency/Priority Assessment**

If a Participant does not succeed in purchasing or assuming a percentage of the Auction Portfolio at least equal to its Minimum Participation, such Participant shall become subject to a potential

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<sup>1</sup> Prices in this example represent prices for the entire auction portfolio. Thus, a bid for 25% at \$40 million would be a bid to acquire 25% of the auction portfolio on the assumption that the value for the entire auction portfolio is \$40 million. If such a bid established the Clearing Price at \$40 million, the clearinghouse would have to pay the relevant bidder \$10 million to assume 25% of the auction portfolio. The bids in this example are negative bids (*i.e.*, represent the amount that the bidder would require to be paid in order to assume the net liability represented by the portfolio).

priority assessment against such Participants' Clearing Fund contribution (a "Priority Assessment"). Priority Assessments shall be made if the liquidation of the suspended OTC Member's business results in a deficiency that would result in a proportionate charge against the Clearing Fund contributions of all clearing members, regardless of the reason for any such deficiency. In the case of any such deficiency, the Corporation shall first make a Priority Assessment as provided in Rule 1106(e)(2)(C) against the Clearing Fund contribution(s) of such Participant(s). Any deficiency that remains after application of the Priority Assessment(s) shall be satisfied in accordance with Rule 1106(e)(2)(C) and Article VIII, Section 5 of the By-Laws.

### Calculation of Priority Assessment

The Priority Assessment will be based upon (i) the NAV of the Auction Portfolio, (ii) the Participant's stated bids relative to the Clearing Price, and (iii) the "Assessment Ratio," as defined below. In order to calculate the Priority Assessment, the Corporation will first identify Participants that did not win a portion of the Auction Portfolio equal to or greater than their Minimum Participation. The amount of the Priority Assessment will be calculated as described below.

First, a Priority Assessment ratio will be based upon each such Participant's winning allocation vs. its Minimum Participation (the "Assessment Ratio"). The Assessment Ratio will be calculated as  $1 - (\text{winning allocation} / \text{Minimum Participation})$ .

For example:

OTC Member	Minimum Participation	Winning Allocation	Assessment Ratio
Firm A	40%	50%	None
Firm B	24%	27.6%	None
Firm C	8%	0	100%
Firm E	28%	22.4%	20%

Next, the Corporation will calculate how much of a Participant's clearing fund requirement may be subject to the Priority Assessment (the "Clearing Fund Contribution At Risk"). The Clearing Fund Contribution At Risk amount will be calculated as the percentage of the Auction Portfolio the Participant was required to bid for (*i.e.*, the Minimum Bid Size) x the Auction Portfolio NAV x Assessment Ratio.

For example:

<b>OTC Member</b>	<b>Clearing Fund Requirement</b>	<b>Minimum Bid Size x portfolio NAV</b>	<b>Assessment Ratio</b>	<b>Clearing Fund Contribution At Risk</b>
Firm C	\$92,000,000	9.2% of \$35 million =\$3,220,000	100%	\$3,220,000
Firm E	\$90,600,000	32.2% of \$35 million =\$11,270,000	20%	\$2,254,000

Finally, the Corporation will rank the Participants subject to the Priority Assessment in order of their bids submitted. Bids will be ranked from worst to best in order to apply the Priority Assessment.

1. Firm C: 9.2% at \$100,000,000
2. Firm E: 32.2% at \$75,000,000

The Priority Assessment will be satisfied against the Participants in the order their auction bids are ranked. In this example, since Firm C had the worst bid, the Priority Assessment would be exhausted by Firm C's Clearing Fund Contribution at Risk first. If the liquidation of the suspended OTC Member produced a \$3 million shortfall, Firm C would bear the entire Priority Assessment.

If the liquidation of the defaulting OTC Member produced a \$10 million shortfall, losses would be allocated as follows:

1. \$3,220,000 against Firm C
2. \$2,254,000 against Firm E
3. \$4,526,000 against all clearing members' Clearing Fund contributions (including Firm C and Firm E as well as Firms A and B)

### **Second Auction Option**

If the Clearing Price is determined by an outlying bid, the Corporation will have the discretion to choose a clearing price that clears at least 80% of the Auction Portfolio at an improved price. The remaining Auction Portfolio would be re-auctioned using the same process as the first Auction, as described above.

### **Default Management Advisory Committee**

The Corporation will establish a Default Management Advisory Committee that the Corporation will consult prior to determining to hold an OTC Options Auction as provided in Rule 1106(e)(2). If the Corporation determines to hold an OTC Options Auction, the Corporation will utilize the committee to assist in the closing of a suspended OTC Member's OTC Index Option portfolio. The committee will consist of representatives from each non-suspended OTC Member, and its role will be to advise the Corporation on the structure of the Auction Portfolio as well as any hedges to be established pending liquidation of the Auction Portfolio. The committee will serve strictly in an advisory capacity to the Corporation, and the Corporation's management will have full discretion to accept or reject any recommendations.