



August 21, 2014

By Electronic Mail (rule-comments@sec.gov)

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: [OCC Request for Comment on SEC File No. SR-OCC-2014-16](#)

Dear Ms. Murphy:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to comment on the above-referenced filing, which is a proposed rule change filed by The Options Clearing Corporation (“OCC”) with the Securities and Exchange Commission (“Commission”).² The OCC has filed a proposed rule change to add an interpretation and policy concerning its administration of existing Article VI, Section 7(c) of the By-Laws. Specifically, OCC is requesting approval to implement price reasonableness checks on confirmed trades in standardized options and futures options to increase the likelihood that erroneous trades will be identified and void. For the reasons outlined below, SIFMA strongly agrees with OCC’s request to implement new post trade risk controls to “promote the protection of OCC and clearing members from erroneous trades.”³ As a result, SIFMA believes it is appropriate that the Commission approve OCC’s added interpretation and policy of existing Article VI, Section 7(c) of the By-Laws.

On May 21, 2014, OCC and the U.S. options exchanges announced “the adoption of pre- and post-trade risk control principles that are designed to enhance the monitoring of trading activity on a real time basis and reduce the risk of errors or other inappropriate

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit www.sifma.org.

² See Securities Exchange Act Release No. 34-32718 (July 30, 2014), 79 FR 45527 (August 5, 2014).

³ *Id.*

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activity that poses a material risk of significant market disruption.”⁴ SIFMA supports the OCC’s effort to reduce risk and supports the premise that OCC has policies and procedures designed “to identify sources of operational risk and minimize those risk through the development of appropriate systems, controls and procedures.”⁵

The OCC is proposing to modify a parameter in OCC’s system that does not allow OCC to accept a trade having a premium price of more than \$9,999.99. In its filing, OCC cites an example of how these filters prevented OCC “from accepting erroneous trades that resulted from a trading algorithm error of a customer of a clearing member. If the system parameters had not prevented OCC from accepting the trades, the settlement obligation for the clearing member for these trades alone could have exceeded \$800 million.”⁶ Consequently, OCC embarked upon a review of the \$9,999.99 threshold to determine whether the value of the reasonableness review for premium prices should be lowered in order to promote the protection of OCC and clearing members from erroneous trades.

OCC utilized a data driven approach, whereby it reviewed 141 business days of trading activity, nearly 179 million trades, that occurred between December 2, 2013 and June 24, 2014. Using a premium price limit of \$2,000 per contract, 30 trades would have triggered a price reasonableness check for exceeding the \$2,000 threshold. OCC has established a procedure whereby the trade would be sent back to the executing Exchange to determine whether an erroneous error occurred. The OCC projects that the review should last no longer than one hour from initiation by OCC to full resolution by the reporting Exchange. The trade would not continue through OCC’s clearing process until the Exchange reports back with a resolution. If the trade is deemed to be an error, the Exchange would instruct OCC to “bust” the trade, thereby eliminating the risk to the clearing house and its members.

SIFMA strongly agrees with the OCC’s proposed rule change to apply enhanced post-trade price reasonableness checks on confirmed trades in standardized options and futures options to increase the likelihood that erroneous trades will be identified and voided. Accordingly, SIFMA believes it is appropriate that the Commission approve SR-OCC 2014-16.

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⁴ See OCC Press Release, OCC and the U.S. Options Exchanges Adopt New Pre- and Post-Trade Risk Control Principles, dated May 21, 2014 - http://theocc.com/about/newsroom/releases/2014/05_21.jsp.

⁵ See 79 FR at 45528.

⁶ See 79 F9 at 45527.

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SIFMA greatly appreciates the SEC's consideration of SIFMA's comments in reference to the above. If you have any questions, please do not hesitate to contact me at (212) 313-1287 or egreene@sifma.org.

Respectfully Submitted,

Ellen Greene

Ellen Greene
Vice President

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