

The proposed rule change SR-OCC-2024-001 34-99393 by the Options Clearing Corporation (OCC) raises significant concerns regarding its potential to protect bad bets, creating a breeding ground for larger risks during volatile market conditions. The apparent aim to prevent another increase in volatility by adjusting margin requirement parameters may inadvertently lead to the amplification of risk, as it restricts the occurrence of crucial margin calls. The role of the Financial Risk Management (FRM) Officer also poses a conflict of interest, as their discretion seems geared towards safeguarding OCC's interests over the broader market's risk exposure. Furthermore, the lack of transparency, with pertinent materials redacted, raises questions about the effectiveness of the proposal.

Margin calls play a crucial role in maintaining market stability by mitigating risk exposure during periods of heightened volatility. The proposed rule, by limiting the frequency of margin calls, runs the risk of allowing bad bets to accumulate unchecked, potentially leading to systemic concerns. Balancing risk management parameters is essential to prevent market distortions, and any changes should carefully consider the broader implications on market integrity.

To address the concerns raised, it is advisable to reassess the loss allocation framework, prioritizing Clearing Fund deposits over the OCC's pre-funded resources. Additionally, the implementation of an independent review mechanism would ensure impartial evaluation of control settings, reducing the inherent conflict of interest within the FRM Officer's role.

Enhanced transparency measures are paramount to building trust in the proposed rule. Providing non-confidential summaries of redacted materials would allow stakeholders to better evaluate the rule's effectiveness and potential risks. Strengthening oversight mechanisms and incorporating public input in decision-making processes would further contribute to a more accountable and inclusive rulemaking system.

Collaboration with stakeholders is key to establishing industry-wide standards and best practices. Public accessibility to stress testing results can demonstrate the effectiveness of risk management measures and promote a more transparent financial ecosystem. Emphasizing adherence to industry-wide standards ensures that risk management policies align with broader market interests.

In conclusion, fostering a financial environment that prioritizes fairness and transparency is essential for maintaining market integrity. While expressing concerns about the proposed rule, there is confidence in the Securities and Exchange Commission's ability to thoroughly consider these issues during the rulemaking process. The ultimate goal should be to strike a balance between risk management and broader market stability to ensure the health and resilience of the financial system.

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