



September 2, 2024

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Release No. 34-100664; File No. SR-OCC-2024-010; Margin Add-On Charge to Help Mitigate the Risks Arising from Intraday and Overnight Trading Activity.

Dear Ms. Vanessa A. Countryman

The Security Traders Association¹ (“STA”) appreciates the opportunity to provide comments to the aforementioned rule change (“Proposal”) proposed by the Options Clearing Corporation, (“OCC”) to a margin add-on charge that would be applied to all clearing member accounts to help mitigate the risks arising from intraday and overnight trading activity. More specifically OCC proposes to capture the risks associated with overnight and intraday activity by: (1) establishing an Intraday Risk Charge add-on, and (2) establishing monitoring and escalation criteria for Clearing Members whose intraday activity exceeds certain thresholds relative to its Intraday Risk Charge (“Intraday Monitoring Thresholds”)

OCC collects margin requirements for each marginable account calculated by OCC’s proprietary System for Theoretical Analysis and Numerical Simulation (“STANS”). As noted by OCC in the Proposal, STANS margin calculation is based on end-of-day positions, the margin requirement may not account for option contracts traded on the day of their expiration—so-called “zero-days-to expiration” or “0DTE” options, since the Clearing Member would have either traded out of or exercised the options position, or the option would have expired by the end of the day.

The Proposal was filed with the Securities and Exchange Commission, (“Commission”) on August 6, 2024, and published in the Federal Register on Monday, August 12, 2024 with a 21-day comment period resulting in a deadline of Monday, September 2, 2024.

¹ STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association’s founding principle, Dictum Meum Pactum – “My Word is My Bond.” For more information, visit <https://securitytraders.org/>.

STA is an organization made up of individuals involved in trading financial securities in the U.S. and Canada. Our members work at retail brokerage firms, agency-only broker-dealers, correspondent and prime brokerage clearing firms, asset owners and managers, liquidity providers, and exchanges. STA also maintains three advisory committees composed of industry professionals with specialized expertise. These expert committees provide essential guidance that is reflected in our comment letters.

Recommendation

It is STA's view that the Proposal impacts all option industry participants, including clearing members, agency executing brokers, interdealer brokers, market makers, retail participants and their broker. For reasons that we will expand upon in this letter, STA believes the twenty-one (21) day comment period is inadequate and we recommend that it be extended for a minimum of twenty-four (24) additional days. Allowing such an extension will enable STA and the broader industry to solicit more meaningful input – including possible alternatives that could achieve the Proposal's intended goals in a more efficient manner. STA is still vetting some significant concerns and questions about the proposal with our membership, and we plan to submit a more detailed comment letter once this process is concluded.

In 1996, the Board of Governors of the Federal Reserve System ("Fed") provided supervisory expectations and guidance to financial institutions regarding required absences from sensitive positions.² The Fed's actions included supervisory guidance to financial institutions requiring employees in sensitive positions to take at least two consecutive weeks of vacation, or other leave, on an annual basis. The Proposal being filed on August 6 limits the opportunity to seek meaningful input, as many interested parties were or are on their mandated two-week vacation during this time.

General Views

STA agrees with statements in the Proposal describing a significant increase in contract volumes on 0DTE options and that 0DTE options trading poses challenges to OCC's risk management.

STA agrees that intraday and overnight trading activity needs to be properly margined and that there are gaps in how margin is currently calculated and collected from OCC's Clearing Members.

² <https://www.federalreserve.gov/boarddocs/srletters/1996/sr9637.htm>

STA is uncertain if the OCC's approach to address any margin gap by solely requiring clearing members to post more capital correlates to the actual intraday risk. We believe technological improvements in the calculations for determining margin need to be part of the solution.

STA is uncertain if the monitoring and escalation criteria for Clearing Members whose intraday activity may exceed certain thresholds relative to its Intraday Risk Charge is properly designed. The monitoring component may impact participants performing similar roles differently. While the escalation component is not sufficient to offset any unintended harm caused to participants in the option markets.

STA is unable to measure the quantifiable impacts resulting from the Proposal since certain exhibits supporting the rule change are marked confidential.

Conclusion

Over the course of our 91 year history, STA has engaged extensively with the Commission on rulemaking. It has been our experience that notice, and comment periods are opportunities for interested parties to provide meaningful input. This attribute ensures that rules are adequately designed and that interested parties continue to engage in a process viewed as fair and transparent.

STA is concerned about the limited time the industry has been given to offer comments, especially as this period coincides with the mandatory two-week vacations for many participants. It is our intention to file a second and more comprehensive comment letter should an extension be granted.

STA agrees with many of the OCC's assessments on intraday and overnight trading and we support OCC's goal of accurately calculating and collecting margin requirements from its Clearing Members. However, we also believe it should not be assumed that Clearing Members will provide additional capital to support what may be a potentially flawed risk approach.

Sincerely,



James Toes
President & CEO
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Honorable Jaime Lizárraga, Commissioner

Haoxiang Zhu, Director of the Division of Trading and Markets