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<u>Via U.S. mail and electronic mail to rule-comments@sec.gov</u>

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

Re: File Number SR-OCC-2040-010 - Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change by the Options Clearing Corporation To Establish 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

Dear Ms. Countryman,

Matrix Executions, LLC. ("Matrix" or the "Firm") appreciates the opportunity to respectfully submit comments to the proposed rule submitted by The Options Clearing Corporation ("OCC") on July 25, 2024, and filed with the Securities and Exchange Commission ("SEC" or the "Commission") as described in Release No. 34-100664. This letter represents the views of Matrix and does not necessarily represent the views of any of our clients.

<u>About Matrix</u>

Formed in 2018, Matrix is a leading agency-only broker dealer providing electronic and floor-based[1] options brokerage services for over 125 professional broker dealers (including some OCC member clearing firms), proprietary trading groups, and other institutional clients. Matrix's founders and members of management each have over 25 years of experience in trading, brokerage, compliance and technology within the options space. Matrix offers clients a suite of trading solutions and services, and is also a technology provider, with a full suite of trading algorithms and its own front-end trading system. Matrix is a member of all U.S.-based options exchanges. As an agency-only broker dealer, Matrix does not provide services for the retail trader, does not hold funds or securities, and does not carry positions overnight.

[1] Matrix currently operates a floor brokerage operation on BOX Options Exchange ("BOX").

Concerns with Proposed Rule SR-OCC-2024-010

The OCC makes clear in its filing with the Commission that the increase in expiration days/weeks/cycles, overnight Global Overnight Trading Hours ("GTH"), and the increased volume and popularity of "*zero-days-to-expiration options*" ("0DTE") may have increased the risk exposures of the OCC (and its member firms). Matrix acknowledges these concerns and potential risks associated with certain market activity. As proposed, however, SR-OCC-2024-010 would inadvertently and substantially punish firms like Matrix, its direct competitors[2], Inter-Dealer Brokers ("IDBs"), and floor brokers across the various physical exchanges[3] who do not present such risks. We are concerned that the end result of finalizing the proposed rule as currently drafted may be less competition, increased execution costs, and lower execution quality, none of which serves investors or our capital markets.

Agency-only brokers should be exempt from the intraday margining proposal

Agency-only brokers, like Matrix, and floor brokers should be exempted from this proposal, similar to considerations given to cross-margin accounts.[4] These brokers do not hold positions, funds, or securities, and transfer executed trades to the client prime broker on a reasonable and timely basis. Moreover, such brokers provide a vital market function sourcing liquidity, price improvement, and timely executions. The OCC's proposal would disincentivize Matrix and similar brokers from performing these functions as the intraday risk would be transferred to them as opposed to the client's clearing firm(s) where the risk is (or should be) assessed. Executing brokers should not be treated the same from a risk perspective as market making and proprietary trading firms.

It has been suggested that trades by agency-only brokers, such as Matrix and its competitors, are too difficult for the OCC to track or separate from other trades. We disagree and have found in our experience that these executions can be easily tracked. For example, Matrix's clearing firm ABNAMRO ("ABN") has assigned Matrix a unique clearing number (OCC #541). No trades from any other ABN client are comingled using that clearing number. Similarly, DASH (OCC #333) and WEX (OCC #365) have their own clearing numbers. Segregating execution firms from other clearing business to exempt them systematically from the potential negative consequences of this rule is a relatively simple process. Footnote 27[5] of the proposed rule states "OCC may determine that a margin call is not warranted if the risk increase [is] ... *the result of position transfers between accounts such as delayed CMTA's from execution only accounts…."*[6] Designating certain OCC clearing numbers as "execution only accounts" and giving those numbers an exemption similar to

[2] Competitors include Dash Financial ("Dash") and Wolverine Execution Services ("WEX"), among several others.
[3] Exchanges that have floor brokers include Cboe ("C1"), BOX Options Exchange ("BOX"), NYSE-AMEX ("AMEX"), NYSE-ARCA ("ARCA"), Nasdaq PHLX ("PHLX"), and, in early 2025, MIAX Sapphire.
[4] Section 1, page 8, paragraph.
[5] Section 2, page 14, bottom footnote.
[6] Emphasis added.

that given to cross margin accounts would remove the uncertainty of the proposed rule with regard to agency-only brokers.

OCC's proposed model fails to properly assess intraday risk

Matrix understands that the significant growth in 0DTE and similar type options is the impetus for greater attention on intraday risk. However, these orders are generally executed via direct give up and reside at the firm with which the client has their account. In contrast, agency and floor brokers primarily handle larger institutional orders, which are paired (or crossed) at the time of execution and (typically) hedged via stock or futures simultaneously. Once executed, the initiating side of the order is sent to the initiating client's prime broker, and the contra side is allocated to the contra-side's prime broker(s). The hedge portion is executed on one of (many) stock exchanges, giving up the prime broker's Market Participant ID ("MPID") directly. These orders are essentially offset and should not generate any significant margin risk. However, because the originating order and the contra side order(s) may be moved to different clearing firms, or at the very least, different accounts, we are concerned the OCC's proposal does not properly recognize those differences. Similarly, the OCC does not consider any hedge to a trade, whether it involves stock, futures, or perhaps another option. Viewing a trade in aggregate inflates the actual risk (and potential margin call) by many multiples. We are concerned that this is a distortive and inappropriate way to evaluate and address risk.

OCC's proposal may be margining the same trade multiple times

In January 2024, the OCC implemented an add-on charge to pre-fund risk exposure to 0DTE options. In March 2024, this add-on charge was expanded to all options. Following these changes, the OCC is now proposing an intraday margin call. A firm that receives a margin call has one-hour to post the requested margin. This margin would not generally be released until the following day.[7] The addition of a possible intraday margin call would tax clearing firms for trades as to which they have already put up money to cover. Under the proposed rule as written, an execution firm, such as Matrix, executing a large trade may trigger a threshold for a margin call, be required to post margin, transfer the trade via CMTA to the client's prime broker, and then *that* prime would be required to post margin on *the same trade*. In this scenario, the OCC would require the clearing firm to deposit the pre-fund risk amount, post additional margin and then margin the same trade again once it is moved to its proper account.

Intraday risk measurement may present an inaccurate and distorted picture of potential margin risk

The proposed rule contemplates that the OCC will calculate the Intraday Risk Charge based on increased risk identified through the OCC's current intraday margin system, which recalculates the System for Theoretical Analysis and Numerical Stimulation ("STANS") market risk using portfolio

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[7] Section 2, page 14, top paragraph.

position sets updated every 20 minutes between 8:30 a.m. and 6:30 p.m. Central Time, and at least every hour during ETH sessions.[8] The OCC collects margin requirements for each marginable account calculated by STANS *based on the accounts end-of day positions from the previous business day.*[9] For execution firms that carry no end-of-day positions, such as Matrix, any calculation or variation based on this would be abnormal compared to firms that carry positions regularly.

The twenty-minute snapshot may provide an accurate intraday risk representation for accounts that regularly carry positions. However, this is not the case for Matrix and similar broker-dealers. For execution only accounts, the snapshot presents an inaccurate and distorted picture of potential margin risk. In other words, the risks targeted by the proposed rule are not presented by the trading activity of Matrix.

Consider the following two scenarios:

> **Scenario 1**
> Market snapshot: 8:30 – 8:50 a.m.
> Order entered and executed: 8:31 a.m.
> Order allocated: 8:34 a.m.

This order is entered, executed, and allocated within three minutes, all within the same market snapshot. This order will not appear on the risk report.

> **Scenario 2**
> Market snapshot: 8:30-8:50 a.m.
> Order entered and executed: 8:28 a.m.
> Order allocated: 8:31 a.m.

As in Scenario 1, the order is entered, executed and allocated within a three-minute span. The difference between the two is that in the second scenario, the order would appear on the market snapshot and potentially be considered for additional margin. As proposed, the rule does not provide any clarity for this situation. It has been suggested that an order that appears during one snapshot segment and is allocated or moved before the end of the subsequent segment would not be subject to margin. The proposed rule, however, does not expressly provide for that treatment. We request the SEC clarify the intent of the proposed rule.

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[8] Section 1, page 6.
[9] Introduction, Section II(A), page 3, emphasis added.

Technology challenges limit firms' ability to enter orders

Matrix (and similar firms) are put in an untenable position due to technological issues beyond the scope of the Firm, creating a situation which both compounds and complicates the issues highlighted above. Matrix receives all of its orders (for both electronic or floor-based execution) electronically from its institutional/broker-dealer clients. No front-end system can handle order entry with multiple clearing accounts attached to an order. Further, even if a client would be able to enter an order in this fashion, almost no exchange would be able to process it. Consequently, clients enter orders with incomplete clearing information requiring manual intervention to allocate these transactions. As these orders are routed to the Firm, they are never Matrix positions, as confirmed by the electronic audit trail. These positions are "booked" as and represent risk for our clients, even if clearing and allocation lag behind due to inefficiencies in the system.

Conclusion and Proposed Revisions

Matrix opposes the proposed rule set forth by the OCC in its current form. We are concerned that execution only brokers and floor brokers will be disproportionately, unnecessarily and negatively impacted by the proposed rule and that finding a clearing firm to back these firms will be extraordinarily challenging if the proposal remains as written. Significantly, we are further concerned the downstream effect, as mentioned earlier, will be a reduction in liquidity, lower execution quality, and increased costs for all market participants. Institutions have already begun to move away from OCC cleared products and towards those cleared at CME. As CME expands its offering, the result will be a bigger move away from the traditional option exchanges for these products.

To help alleviate some of these concerns, Matrix suggests the following revisions to the proposed rule:

1. The SEC should require coordination between OCC, DTCC, and CME regarding ways to more accurately portray intraday risk.
2. Given the disproportionate and punitive (and we believe inadvertent) impact on Matrix and similar firms, an exemption, similar to that used by cross margin accounts, should be established for execution only accounts.
3. The rule should expressly contemplate or provide for intraday margin relief with respect to positions executed in one OCC account and moved to another in a reasonable amount of time.
4. The rule should require exchanges to modify their systems to accept multiple clearing accounts at the time of order entry/execution.
5. Until such time as exchanges are able to accept multiple clearing accounts, the rule should require clients to provide complete and correct clearing information at or near the time of order entry.

6. Extend the comment period for an additional 24 day period, allowing the industry to provide more meaningful input and possible alternatives that could better align OCC's objectives.

Thank you for giving Matrix Executions, LLC, the opportunity to comment on the proposed rule. We are happy to be a resource to the SEC on this matter.

Please feel free to contact me at agreenberg@matrixexecutions.com or (312) 291-2706.

Very truly yours,

Allen Greenberg

Allen Greenberg
Chief Operating Officer
Matrix Executions, LLC