



September 5, 2024

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Proposed Rule Change 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 (File No. SR-OCC-2024-010).

Dear Ms. Countryman,

The FIA¹ appreciates the opportunity to submit this letter in response to the above-referenced rule change (the “Proposal”) by the Options Clearing Corporation (“OCC”). We recognize the challenges that OCC faces, particularly concerning the management of risks associated with zero-days-to-expiration options (“ODTE”). While we understand the OCC’s position, we have significant concerns about the design and potential impacts of the Proposal as currently outlined².

General Support for Additional Margins, with Significant Reservations

We acknowledge that in the context of risk management, some margin buffer is better than none. The proposed backward-looking, monthly-calibrated add-on, while far from ideal, represents an attempt to address intraday risk in the absence of a more refined system. We strongly believe that this should be a temporary measure as OCC works towards a more sophisticated, transparent and risk-sensitive intraday monitoring system. We must emphasize that the current approach falls short of what is needed, and we strongly urge the OCC to expedite the development and implementation of a more precise and effective solution.

¹ FIA is the leading global trade organization for the futures, options, and centrally cleared derivatives markets. FIA’s mission is to support open, transparent, and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct. FIA’s membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries, as well as technology vendors, lawyers and other professionals serving the industry.

² While certain key concerns are outlined in this comment letter, FIA may submit further comments in a follow-on letter.

Complexity and Impact on Clearing Members and Their Clients

OCC's Proposal introduces significant complexity and potential risks for Clearing Members, particularly smaller firms that may not have the liquidity buffers necessary to meet sudden, large intraday margin calls. The methodology outlined, particularly the reliance on a historical 1-month lookback to calculate a monthly charge as intraday add-on, is not only suboptimal and unrepresentative but could also lead to unpredictable, inappropriate risk coverage and pro-cyclical demands. This unpredictability is compounded by the Proposal's Intraday Risk Charge Monitoring Thresholds requirement, which could trigger margin calls at inopportune times, further straining liquidity resources.

For many Clearing Members, it is impractical to allocate intraday margin calls to specific clients due to the structure of co-mingled accounts. The Proposal does not adequately address this issue, potentially leaving Clearing Members bearing the burden of these costs. This is particularly concerning for firms that engage in execution-only brokerage services, as unallocated trades could disproportionately impact their liquidity and operational stability. We recommend that the OCC consider either extending the time horizon for implementation or exempting execution business from these intraday snapshots to mitigate this risk.

Similarly, the potential for the proposed monthly charge to be allocated to clients is unclear, which could result in Clearing Members bearing the full burden of these additional costs. We urge the OCC to provide greater transparency to facilitate the allocation of the monthly charge to individual clients and allow Clearing Members sufficient time to integrate the new requirements in their process before implementing the Proposal.

Need for Detailed Methodology and Impact Analysis

The Proposal lacks sufficient detail regarding the computation of the Intraday Risk Charge as well as the Intraday Risk Charge Monitoring Thresholds requirement and their potential economic effects on Clearing Members and their clients. FIA requires clarity on how these charges will be calculated and the potential magnitude of additional margin requirements. This transparency is essential for Clearing Members to accurately anticipate, model, and manage the associated costs and associated risk management and operational procedures.

The Role of Agency Brokers and Potential Market Impact

We are particularly concerned about the impact on Agency Brokers and their Clearing Members. The current proposal could impose significant liquidity risks on these entities due to the timing and structure of intraday margin calls. Agency Broker transactions often clear initially at the Agency Broker's Clearing Member intraday, only to be reallocated at the end of the trading day. This process could expose Clearing Members to substantial intraday risk, which they may not be equipped to handle. We believe that the Proposal needs to address this issue more comprehensively to avoid unintended consequences that could harm market stability.

Conclusion

In conclusion, while we recognize the need for OCC to take urgent action to manage intraday risks associated with ODTE options, we believe the current Proposal is poorly designed, inefficient, and could impose significant and unwarranted costs on Clearing Members and their clients. We urge the Commission to require the OCC to provide a more detailed and transparent analysis of the Proposal's impacts and to work closely with industry participants to develop a more effective and tailored solution.

We stand ready to engage in further dialogue with the OCC to help refine this approach and to ensure that any measures implemented are both effective and equitable across the industry.

Thank you for considering our views on this important matter. If you have any questions, please do not hesitate to contact Jackeline Mesa at jmesa@fia.org.

Respectfully submitted,



Jackie Mesa
FIA Chief Operating Officer and Senior Vice President of Global Policy