THE FOUNDATION FOR SECURE MARKETS®

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September 18, 2024

Via Electronic Submission

Vanessa Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-2000

Re: File No. SR-OCC-2024-010

Dear Ms. Countryman:

The Options Clearing Corporation ("OCC") submits this letter in response to several of the concerns raised in the public comment letters submitted in connection with OCC's above referenced rule proposal to implement a new margin add-on charge.

Founded in 1973, OCC is the world's largest equity derivatives clearing organization. OCC operates as a central counterparty ("CCP") under the jurisdiction of both the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC"). As a registered clearing agency under the SEC's jurisdiction, OCC is the sole clearing agency for equity options listed on national securities exchanges. As a registered Subpart C DCO under the CFTC's jurisdiction, OCC clears and settles transactions in futures and options on futures. OCC also provides central counterparty clearing and settlement services for securities lending transactions. OCC has been designated by the Financial Stability Oversight Council as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). As a SIFMU, OCC is subject to prudential regulation by the FRB. OCC is recognized by the European Securities and Markets Authority as a Tier 1 third-country CCP under Article 25 of the European Market Infrastructure Regulation. OCC operates as a market utility and is owned by five options exchanges.

OCC's mission is to serve the listed options industry, which includes protecting its Clearing Members, their customers, and the markets OCC serves through the development and implementation of robust risk management practices. As the listed options markets matured, OCC has observed the industry transition to trading contracts with shorter times-to-expiration, which led to changes in options trading dynamics. The shift to daily expirations coupled with significant increases in intraday trading of short-dated options ("SDO") and zero-day options ("0DTE") pose challenges to OCC's risk management and margin collection processes used to manage OCC's daily exposure to Clearing Members and market participants. To address these risks, OCC submitted the above captioned rule proposal that, if approved, would provide a mechanism - the Intraday Risk Charge – for OCC to collateralize intraday trading risks. Commenters appeared to agree with the proposition that addressing intraday risk, including intraday risk attributable to the growth of SDO and 0DTE options trading that is not adequately captured today through OCC's daily morning margin collection process, is a noble goal. The commenters also, however, were not in agreement with the way OCC proposed to address the problem. OCC identified three recurring themes in the comment letters that OCC will address in more detail below, including (i) the process OCC will use to determine the amount of the Intraday Risk Charge, (ii) the applicability of the Intraday Risk Charge to executing brokers, and (iii) concerns about the way Clearing Members will allocate the Intraday Risk Charge to customers.

The pace of change in the listed options markets continues to accelerate with the ongoing listing of new and novel products. OCC believes it is imperative to address these risks now and that leveraging its existing technology to account for intraday risks is essential to support OCC's core risk management mission. 0DTE options are fleeting, i.e., market participants trade these options on the day of their expiration. Because they expire on the same day they are traded, the risk of the trading activity is never captured in OCC's daily morning margin collection process, the amounts of which are determined based on calculations that rely on Clearing Members' previous day's closing positions. Accordingly, OCC designed and developed the rule proposal to address some of the challenges related to intraday risk changes, including with respect to SDO and 0DTE trading, through the assessment of an "Intraday Risk Charge," a daily risk-based margin add-on charge. OCC also intends to implement enhanced tools to measure and monitor intraday risk increases presented by Clearing Member trading activities so that it may call for additional margin when it deems necessary and appropriate.

While some commenters expressed concerns over the use of a one-month lookback to determine the Intraday Risk Charge, the use of historical lookbacks for projecting potential future exposures is a common practice in the financial industry. OCC's proposed approach of establishing a margin add-on using a historical lookback as a buffer to account for variability in margin requirements is not unique among clearing agencies. For example, the National Securities Clearing Corporation ("NSCC") established a "margin requirement differential" or "MRD" as a component charge of its members' Required Fund Deposit ("RFD").[1] NSCC calculates the MRD as the sum of an exponentially weighted moving average of positive day-over-day changes over a 100-day look back period in certain other components of NSCC's RFD designed to capture mark-to-market and market price risk, times a multiplier calibrated based on the member's backtesting results.[2] Like NSCC's MRD, OCC's Intraday Risk Charge has been designed as a margin add-on to capture variability in the risk presented by a Clearing Member between OCC's daily morning margin collections. Unlike NSCC's process, however, OCC developed the proposed Intraday Risk Charge to help address the specific risks posed by intraday trading, including with respect to SDO

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1 See Exchange Act Release No. 79245 (Nov. 4, 2016), 81 FR 79071, 79073 (Nov. 10, 2016) (SR-NSCC-2016-005).

2 Id.

and 0DTE trading, that are not captured in the way OCC currently calculates day-to-day margin requirements, as described above. Accordingly, OCC proposes to calculate the Intraday Risk Charge based on a monthly average of a Clearing Member's peak intraday risk increases observed throughout the trading day and during overnight trading. This will allow OCC to capture variability in risk from all products it clears, including SDO and 0DTE options. In addition, OCC believes the one-month lookback period, which includes a standard monthly expiration and multiple weekly expirations, is a conservative, yet not punitive, approach that reflects more recent changes in risk behavior, providing relevant forecasts for the next monitoring cycle.

Some commenters expressed concerns about the proposal's effect on Clearing Members that only engage in trade executions and requested an exemption from the Intraday Risk Charge or delayed implementation for "Executing Clearing Members."[3] Executing Clearing Members act only as Clearing Members that transfer confirmed trades or allocate positions to other Clearing Members and do not carry positions in their accounts with OCC on a routine basis. OCC facilitates the transfer of positions for Executing Clearing Members and other execution firms through its Clearing Member Trade Assignment ("CMTA") rules, which permit a Clearing Member ("Carrying Clearing Member") to authorize Executing Clearing Members to direct that exchange transactions be transferred to an account of the Carrying Clearing Member.

OCC does not believe that an exemption or delayed implementation for a specific subset of Clearing Members would be equitable or fair to all Clearing Members. OCC intentionally designed the Intraday Risk Charge proposal to capture the risk associated with all peak intraday risk increases, and therefore, to apply to all Clearing Members. Unaddressed intraday risk, no matter who incurs the risk, is the focus of the Intraday Risk Charge. Accordingly, all Clearing Member trading activity that results in risk increases in a Clearing Member's account may be subject to the Intraday Risk Charge. Some commenters indicated that it is common industry practice for Executing Clearing Members to give-up or allocate trades at the end of the trading day and argued that Carrying Clearing Members should be accountable for all Intraday Risk Charges. However, during any potential intraday default event, the last account associated with a trade at the time of default could likely be held responsible for making good on the resulting position. Hence, Executing Clearing Members, like any other Clearing Members that incur risk, should be assessed the Intraday Risk Charge for their intraday risk increasing activity.

OCC notes that mechanisms exist to reduce the likelihood of OCC assessing an Intraday Risk Charge to an Executing Clearing Member. OCC observed over the period between May 1, 2024, and August 15, 2024, that for approximately 43% of two-sided contract volume, the trade information for allocated trades accurately identifies the Carrying Clearing Member of the trading party. This information allows an Executing Clearing Member to route a trade directly to the clearing account of the Carrying Clearing Member for the trading party, and thereby bypass the

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[3] See comment letter from Matrix Executions, dated September 3, 2024.

OCC clearing account of the Executing Clearing Member.[4] In these cases, intraday risk activity would not be reflected in the Executing Clearing Member's account. For the remaining 57% of two-sided contract volumes that are missing direct give-up account information and for which post-trade instructions are necessary, Executing Clearing Members will realize the most impact to any potential Intraday Risk Charge by reducing the time between trade clearance and post-trade position instruction submission. OCC encourages Executing Clearing Members to work with their customers to obtain all information necessary as early as possible to facilitate allocation of their trades as soon as possible and avoid the practice of allocating all trades to Carrying Clearing Member accounts at the end of the trading day.

One commenter further suggested that OCC would be margining the same trades in both the Executing Clearing Member and Carrying Clearing Member accounts. OCC notes it is not necessarily true that an Executing Clearing Member's risk increasing activity would also transfer to a Carrying Clearing Member. Because Carrying Clearing Member portfolios often contain larger positions and more diverse products, trades executed by Executing Clearing Members could, in fact, offset other risks within Carrying Clearing Member portfolios. Moreover, as discussed above, the purpose of the proposal is to account for intraday risk presented by each marginable account throughout the day to address potential default risk with respect to each Clearing Member account.

Other commenters suggested that the proposed approach would have disproportionate impacts on smaller brokers or lead to unintended consequences.[5] OCC did not observe a disproportionate impact of the proposal based on the capitalization of Clearing Members. To underscore this point, the impact analysis data indicated that out of the 1,211 projected monthly Intraday Risk Charges that would have been assessed during all of 2023, less than 4.5% of those charges were for 10% or more of a Clearing Member's net capital. Additionally, across OCC's smaller Clearing Members, the maximum projected monthly Intraday Risk Charge was less than $13M.[6] Over the same period, OCC forecasted 1,122 potential margin calls of which 954 calls, would have been issued to Clearing Members with more than $100M in net capital, and the remaining calls issued to smaller Clearing Members. Overall, the most significant Intraday Risk Charges and potential intraday margin calls align with the Clearing Members who carry the most day-over-day margin risk, i.e., OCC's largest Clearing Members.

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4 This observation is based on trade and post-trade contract volume data between May 1, 2024, and August 15, 2024. During that time, there were 7.2 billion contracts traded on a two-sided basis (i.e., buys and sells from the same trade each count separately), of which 4.1 billon two-sided contracts were missing direct give-up account information. Furthermore, OCC identified 611.2 million contracts that received post-trade position instructions, including those that were transferred from an Executing Clearing Member account to a Carrying Clearing Member account.

5 See comment letter from Wolverine Execution Services, LLC, dated September 3, 2024, and comment letter from Chicago Trading Company, dated August 30, 2024.

6 Smaller Clearing Members are entities considered to have less than $100M USD in net capital.

Finally, commenters expressed concern about Clearing Members allocating the Intraday Risk Charge to their customers. OCC's role is to manage intraday risk exposures by measuring and validating risk increasing activity, working with Clearing Members to help them understand and manage their risk profiles, issuing margin calls, and, upon approval, assess an Intraday Risk Charge, when deemed appropriate. While OCC cannot direct whether or how Clearing Members assign or allocate the Intraday Risk Charge to their customers, OCC encourages Clearing Members to utilize tools OCC makes available to help Clearing Members assess their OCC margin requirements and separately devise their own approach to address this issue with their customers. Such tools include the Risk Simulator in Encore, which Clearing Members can use to evaluate top-day trade risk combined with start-of-day positions.[7]

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OCC must address intraday risk today for the protection of all Clearing Members. No solution will ever be perfect; however, OCC believes it reasonably designed the proposed rule using its existing tools to address the increasing risks presented by the trading of SDO and 0DTE. OCC also is committed to working with Clearing Members on an individual basis to help them understand the impact of the proposal on each Clearing Member. OCC believes that discussions related to Clearing Member-level impact are best accomplished in direct communication with Clearing Members. To that end, OCC already has engaged in concerted outreach efforts, which included educating Clearing Members, providing more information on the proposed approach, and soliciting Clearing Member feedback.

For the reasons discussed above, OCC respectfully requests that the Commission approve File No. SR-OCC-2024-010.

Sincerely

Megan Malone Cohen

Megan Cohen
General Counsel and Corporate Secretary.

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7 The Risk Simulator will also be included in the Ovation system, OCC's new clearance and settlement system that is planned to launch in 2025. In addition, following the launch of Ovation, OCC plans to enhance functionality by replacing the Risk Simulator with the What-If Margining ("WIM") Simulation Editor. Like the Risk Simulator, WIM will be a tool that provides Clearing Members with a STANS margin calculation based on a submitted portfolio of their choice.