



October 15, 2024

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

RE: File No. SR-OCC-2024-010; Notice of Filing of Proposed Rule Change by the Options Clearing Corporation (“OCC”) 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:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ submits this comment letter to the Securities and Exchange Commission (the “Commission”) in response to the proposal (“Proposal”) by OCC to establish a margin add-on charge (“Intraday Risk Charge”) that would be applied to all Clearing Member accounts to help mitigate the risks faced by OCC from intraday and overnight trading activity.² This letter follows up on our brief comment letter from September 3, 2024 on the Proposal. In that letter, we noted that SIFMA members have significant concerns and questions about the Proposal, and that we planned to submit a more detailed letter on the Proposal after members had more time to review and digest its implications. We are submitting this letter to provide these more detailed comments and to respond to the Commission’s solicitation of additional comments on the Proposal.³

Executive Summary

As noted in our prior letter, SIFMA recognizes the potential systemic risks faced by OCC related to the significant increase in trading of so-called “zero-days-to-expiration” or “0DTE” options and acknowledges OCC’s need to address these risks within a reasonable timeframe.

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

² See Release No. 34-100664 (Aug. 6, 2024), 89 FR 65695 (Aug. 12, 2024).

³ See Release No. 34-101193 (Sept. 25, 2024) (designating a longer period for Commission action on the Proposal and soliciting additional comments on it).

However, SIFMA remains concerned that the Proposal is too broad and blunt an approach to address these risks, and that its failure to appropriately tailor the Intraday Risk Charges to Clearing Members' actual levels of trading activity could have significant negative impacts on the listed options business of SIFMA members and the overall liquidity and quality of the listed options market. We believe that OCC should address these concerns prior to any Commission approval of the Proposal.

Based on SIFMA's concerns with the Proposal, we have identified several constructive suggestions of alternative approaches for OCC's consideration. As discussed below, we believe OCC should explore these or other alternatives to more accurately identify the appropriate amount of additional margin needed to address the risks presented by Clearing Members' intraday trading activity, and SIFMA would be happy to work with OCC regarding these suggestions.

SIFMA also remains concerned about the proposed implementation plan for the Proposal given the varied level of awareness regarding the Proposal within the options industry, as well as the plan to rapidly roll out the significant changes contemplated in the Proposal within 120 days of the date of approval, which could be as soon as the first quarter of 2025. If despite industry concerns about the substance of the Proposal the Commission were to approve it in its current form, the proposed implementation plan needs to be reworked to provide market participants with more time to adjust to these significant changes.

I. Proposal Background

As discussed in more detail in the Proposal, OCC proposes to establish an Intraday Risk Charge, which would impose additional margin on Clearing Members, to address certain limitations in OCC's current margin methodology, particularly as it relates to intraday risk exposures faced by OCC from its Clearing Members' 0DTE trading activity. Under the Proposal, OCC would calculate the charge based on the increased risk identified through OCC's current intraday margin system, which recalculates Clearing Members' margin risk based on OCC's proprietary System for Theoretical Analysis and Numerical Simulation ("STANS") using portfolio position sets updated every 20 minutes between 8:30 a.m. and 6:30 p.m. Central Time, and at-least every hour during extended trading hours ("ETH") sessions. Specifically, OCC proposes to calculate the new Intraday Risk Charge using outputs from the previous night's daily STANS methodology calculation, incorporating current portfolio changes, to monitor the following trading day's peak intraday risk increases. The Intraday Risk Charge would be calculated monthly as "at least the average of the peak intraday risk increases," and would be calculated on the first business day of the month based on data and STANS outputs generated over the lookback period, which will be set as the previous month. OCC proposes that the Intraday Risk Charge would apply to all Clearing Members and all products it clears.

OCC states in the Proposal that it has reviewed the potential impact of the proposed changes on all Clearing Members over a one-year period, and has observed that the proposed Intraday Risk Charge would have generated an average margin increase of less than 5% in the aggregate across all Clearing Members. OCC also notes that of the ten firms that would have been most impacted, which collectively represent approximately 68% of the additional margin

that would have been assessed, the average daily margin percentage increases range from approximately 3% to 35%, based on data from October 2023.

In addition to the Intraday Risk Charge, OCC also proposes to establish monitoring and escalation criteria when a Clearing Member's intraday risk increase departs significantly from the prior month's activity that set the Intraday Risk Charge. Under the Proposal, OCC would provide itself with the ability to issue an additional margin call beyond the Intraday Risk Charge if a Clearing Member generates exposures greater than the Intraday Risk Charge Monitoring Thresholds as described in the Proposal.

II. Discussion

SIFMA members have experienced first-hand the dramatic increase in the amount of 0DTE trading activity, and related risks, within the listed options market. As OCC notes in the Proposal, this trading activity can account for upwards of 40% of the listed options volume on expiration Fridays. In response to the overall growth of the listed options market, including the increase in trading of 0DTE options, SIFMA members have enhanced their customer margin practices to protect their firms in the event customers are unable to fund their trading activity. These practices include real-time monitoring of customer positions and exposures, as well as frequent communications with those customers who may not have sufficient funding in their accounts to support equity positions that may be assigned to them as a result of expiring options contracts in their accounts. SIFMA members generally notify customers that they need to take one or more actions to reduce their exposures prior to expiration, such as closing out options positions or hedging them before they expire if they do not have sufficient equity in their accounts to support assignments of near-the-money options contracts that pose significant assignment risk. In the event that such customers fail to take action in a timely manner, the firms themselves also can take risk-reducing actions to protect the customers and themselves from underfunded exposures, including through position liquidations and hedging transactions.

While these practices have significantly enhanced firms' financial protections, SIFMA also recognizes that OCC's current margin methodology is limited and may not adequately capture the exposure OCC faces from its Clearing Members related to intraday options trading activity. Nonetheless, these practices that firms have adopted to address 0DTE trading risks should be taken into account by OCC to the extent it moves forward with the Proposal.

Although we support OCC's need to have more robust intraday margining capabilities, for the reasons described below, we believe that OCC's Proposal is too broad and blunt an instrument to address these limitations. OCC's approach in the Proposal risks significant damage to the business of SIFMA members and the liquidity and quality of the listed options market. It is noteworthy that one of OCC's owners and one of the largest operators of listed options exchanges, Cboe Global Markets, Inc. ("Cboe"), has expressed concerns regarding the Proposal through a comment letter.⁴ We recommend that OCC modify its Proposal to address industry concerns before any Commission consideration is given to approving the Proposal. To that end, below we offer some viable alternative paths for OCC to consider. It is also worth noting that SIFMA continues to encounter options market participants who are not familiar with the

⁴ See (<https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-520475-1494542.pdf>).

Proposal. If despite these concerns the Commission were to approve the Proposal, the proposed implementation plan needs to be modified to provide market participants with more time to adjust to the significant changes contemplated in the Proposal.

A. The Proposal is Too Broad and Not Appropriately Tailored to Clearing Members' Actual Trading Activity

SIFMA believes that the Proposal is too broad and not appropriately tailored to Clearing Members' actual levels of trading activity to address the current limitations in OCC's methodology regarding intraday margining. Through the proposal, OCC is seeking to impose a sticky, month-long add-on margin charge (i.e., the Intraday Risk Charge) on each Clearing Member based on trading activity conducted through or by that Clearing Member during the prior month. The additional charge would be based on the prior month's "average of the peak intraday risk increases" generated by that Clearing Member during that prior month. In addition, OCC is proposing to provide itself with the ability to issue additional margin calls beyond the sticky Intraday Risk Charge in situations when a Clearing Member's intraday risk increase departs significantly from the activity that set the Intraday Risk Charge.

The Proposal's approach to addressing intraday risks is flawed because it will rely on a Clearing Member's trading activity in the prior month to calculate margin needed for the Clearing Member's trading activity in the upcoming month. Such an approach is inherently problematic because the trading activity of Clearing Members and their clients can change significantly from month-to-month, both in the types of products traded as well as in the amounts traded. Moreover, market volatility can change dramatically from month-to-month, such that in situations where the volume of products traded are roughly the same as the prior month, the values of such products can increase or decrease based on increases or decreases in market price fluctuations. The Proposal's approach can therefore lead to over-margining in instances where the number of products traded and/or the notional amounts traded in the current trading month are less than in the prior month, and under-margining in instances where the number of products traded and/or the notional amounts traded in the current trading month are greater than in the prior month.

In its September 18, 2024 response to comments, OCC notes that "the use of historical lookbacks for projecting potential future exposures is a common practice in the financial industry," and references National Securities Clearing Corporation's ("NSCC") "margin requirement differential" or "MRD" as an example.⁵ This comparison, however, is not analogous because the NSCC's 100-day lookback period is arguably a more accurate measure of a member's current daily risk profile because it incorporates trading activity starting on the day before each trading day (rather than up to one month prior) and the charge it imposes is calculated and updated daily. The proposed Intraday Risk Charge, on the other hand, would be calculated on the first day of each month and would remain unchanged for the rest of the month. Despite OCC's reference to NSCC's MRD in support of the Proposal, it appears that OCC's approach to addressing intraday risk through the Intraday Risk Charge is unique among U.S. central counterparties ("CCPs").

⁵ See (<https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-521995-1499402.pdf>).

The Proposal's approach is further flawed because it relies on the "average of the peak intraday risk increases" from the prior month to determine a Clearing Member's Intraday Risk Charge. The Proposal assumes a Clearing Member's trading activity will be roughly the same as the prior month in terms of products, volume, and notional amounts traded. However, the proposed approach of using an average from the prior month will almost certainly lead to over-margining most days of the month and then under-margining on days when the Clearing Member experiences significant trading activity, such as expiration Fridays. While we appreciate that the proposed approach of using averages appears to be designed to help mitigate against wild swings in margin charges during a particular month and pro-cyclicality concerns, it is inherently flawed because it will almost never lead to the right amount of additional intraday margin being charged on a particular trading day. These flaws coupled with the flaws associated with relying on the prior month's trading activity leads to a very blunt and imprecise approach by the Proposal to address intraday risks.

Other flaws with the Proposal's approach include its potential for deterring Clearing Members from participating in default auctions, as well as its potential to competitively harm the listed options market as compared with other derivative markets. On this first point, Clearing Members may be hesitant to bid on a defaulting Clearing Member's portfolio because they will have no way of predicting the Intraday Risk Charge they might incur if one of their bids is successful. This possibility, which is not addressed in the Proposal, could ultimately increase the risk faced by OCC in default scenarios.

On the latter point, the Proposal's potential to significantly increase margin requirements for trading listed options could steer market participants to less costly products that provide similar exposures, such as futures on index products. Of note, OCC does not disclose in the Proposal the actual dollar amounts of margin increases the Proposal would impose. Instead, OCC relies on vague percentage ranges in an attempt to downplay the impact of the Proposal, despite these percentages also showing that one or more Clearing Members could be faced with margin increases of up to 35%. To allow Clearing Members and the public to fully understand the potential cost impacts of the Proposal, OCC must provide such dollar amounts. A failure to do so would hide the true impacts of the Proposal on broker-dealers and investors.

B. There Are Reasonable Alternatives OCC Should Consider

As discussed, SIFMA supports OCC's need to more fully address intraday risks. But we recommend that OCC adopt an approach that is much more targeted to addressing the actual scope of these risks. We are concerned that if the Proposal's approach were to be adopted, it will become permanently hard-wired into OCC's risk management framework and will not be able to be changed in the future. It is critical that OCC implement a sound method for calculating the Intraday Risk Charge now because it could persist even after OCC updates its clearing technology through its Ovation project and has additional risk-monitoring capabilities in the future as a result of these updates.

To this end, SIFMA members have identified several potential alternatives OCC should consider that are intended to be more tailored to Clearing Members' trading activity and risk levels and less likely to result in significant over- or under-margining that would last for an

extended period. For example, the Proposal suggests that OCC currently has the baseline infrastructure to adopt a more robust and risk-targeted intraday margining system. Specifically, OCC's STANS methodology currently captures individual Clearing Member risk exposures on a 20-minute snapshot basis throughout the trading day. We believe that this STANS snapshot infrastructure could serve as the basis for a significantly more risk-focused approach to OCC collecting intraday margin based on the actual risks faced by OCC from a Clearing Member's exposures on a particular trading day.

In this regard, OCC could use these STANS snapshots to determine whether a particular Clearing Member may need to post additional margin during a trading day. If OCC were to consider adopting such an approach, it would also need to establish a particular time during the trading day when such additional margin would be collected to ensure predictability for Clearing Members. We would also expect that such collection time would be in the early afternoon so that OCC has more data from the trading day on which to base such a margin call and Clearing Members have time during the trading day to take steps to prepare for the margin call.

While this alternative would be the most risk-targeted approach among our suggestions, we recognize that OCC may not have the technology infrastructure to implement it currently. Accordingly, we are providing some alternative, and by no means an exhaustive list of, suggestions for OCC's consideration, the first of which is based on the structure of OCC's current Proposal.

Under the first alternative suggestion, OCC could consider shortening the lookback period from one month to one week and using the "average of the peak" risk increases each day over the prior week to determine a Clearing Member's Intraday Risk Charge for the following week. This approach would be more reflective of a Clearing Member's current trading activity and would be more risk-targeted than the Proposal. To address any procyclicality concerns potentially introduced by this approach, the weekly Intraday Risk Charge could be capped so that it could never rise or fall by a set threshold (e.g., 25%) from week to week. Because this approach is similar to the approach contained in the Proposal, we believe it could be implemented within a reasonable timeframe.

The second alternative suggestion is for OCC to consider calculating the Intraday Risk Charge using a tiered framework to distinguish between the size of activity of participants on (i) "normal" trading activity days (Tier 1) and (ii) periods of expected increased trading levels, such as monthly and quarterly options expirations dates (Tier 2). This approach would help more accurately tailor the Intraday Risk Charge to Clearing Members' trading activity profile by performing separate calculations based on member size or adjusting its calculation to account for days of expected elevated trading activity. The exact mechanics of such an approach can be further developed collaboratively.

These suggestions are not an exhaustive list, and we acknowledge that OCC would need to gather additional information to work out the details of any alternative approach. SIFMA members stand ready to assist in those efforts. For example, if it pursued the first suggested approach based on STANS snapshots, OCC would need to consider a Clearing Member's current contributions to the clearing fund in connection with making intraday margin calls. In addition,

for any of the suggested alternatives, OCC also could establish one or more thresholds below which margin calls would not be made and measures to address procyclicality concerns. In reviewing these alternatives, OCC should consider providing itself with the ability to pay interest on margin deposits, as well as the ability to pay deposited margin back to a Clearing Member during a trading day if it turns out that its morning margin deposit was more than needed on that trading day. With regard to interest payments on margin deposits, SIFMA notes that OCC currently does not pay any interest on margin deposits. Such interest payments should be considered to better align OCC's practices with the practices of other CCPs and to offset funding costs incurred by Clearing Members.

As noted, SIFMA's members would be happy to work with OCC on any of these suggested approaches. We note that OCC will soon be directly obligated by Rule 17Ad-25 under the Securities Exchange Act of 1934 ("Exchange Act") to have a board that represents not only the views of its owners and Clearing Members, but also the views of the "the range of customers and clients" the Clearing Members serve.⁶ As discussed in more detail below, it does not appear OCC considered such views in connection with putting forth the Proposal.

In connection with considering alternatives to the Intraday Risk Charge, we also believe that OCC should consider changes to its clearing fund allocation methodology. We understand that OCC may be in the process of discussing with the SEC potential changes to this methodology. As OCC is aware, in a default scenario, OCC would use a Clearing Member's margin and then its clearing fund contribution prior to relying on other resources at OCC to cover any potential shortfalls. Currently, OCC's clearing fund allocation methodology is largely based on the amount of margin a Clearing Member posts with OCC. As the instant Proposal suggests, this margin is not enough to cover the risk OCC could be facing in connection with 0DTE. It follows that as OCC addresses these risks through the Proposal, it should also address how the clearing fund contributions are allocated among Clearing Members. We would welcome the opportunity to discuss with OCC ways in which the methodology could be improved to better align it with the risk that clearing members are bringing to OCC.

C. The Proposal Risks Significant Damage to Firms and the Listed Options Market

In addition to the flaws with the Proposal's attempt to address intraday risks, the Proposal also risks damage to the business of listed options market participants and to the overall liquidity and quality of the listed options market. As noted, OCC under Exchange Act Rule 17Ad-25 will soon be obligated by a Commission rule to ensure that its board consists of directors that represent the views of not only owners and Clearing Members, but also the "the range of customers and clients" the Clearing Members serve. It is clear from SIFMA member feedback

⁶ Under new Rule 17Ad-25(c)(4)(ii), a clearing agency must establish a nominating committee and a written evaluation process that when evaluating nominees, demonstrates "that the nominating committee has considered whether a particular nominee would complement the other board members, such that, if elected, the board of directors, taken as a whole, would represent the views of the owners and participants, including a selection of directors that reflects the range of different business strategies, models, and sizes across participants, as well as the range of customers and clients the participants serve" [underlining added]. See Clearing Agency Governance and Conflicts of Interest, Release No. 34-98959; File No. S7-21-22 (Nov. 16, 2023), 88 Fed. Reg. 84454, 84465 (Dec. 4, 2023).

as well as comment letters on the Proposal that OCC has not considered such views. Discussed below is feedback from SIFMA members that will be impacted by the Proposal.

1. Impact on OCC Clearing Members that Clear Listed Options for Clients

With regard to OCC Clearing Members that clear listed options trades for clients (including other OCC Clearing Members), several of them have indicated that the Proposal could have significant and dramatic impacts on their business. Such firms have indicated that depending on the nature of a clearing client's listed options business, they may need to take steps to mitigate their exposure to that client's trading activity which could include terminating the relationship with that client. As discussed in more detail below, such firms have expressed special concerns about the impact of the Proposal on clients that engage in an agency broker business in listed options ("executing brokers").

Clearing Members that clear trades on behalf of clients are very concerned that OCC has not taken any steps in connection with the Proposal to provide them with tools that would allow them to identify which of their clearing clients are generating the peak intraday exposures over the prior month that are leading to their Intraday Risk Charges. To the extent such Clearing Members decide to pass along their Intraday Risk Charges to their clearing clients, these types of tools would be very helpful in allowing them to determine which of their clients are generating such exposures. As it stands right now, such Clearing Members will have difficulties in making such determinations on their own, given the nature of OCC's clearing model in which clearing clients are grouped into one of three omnibus account types depending on their activity – market maker, firm, and customer.

To help with potential pass-through determinations, such Clearing Members have indicated that they may have the capability to assign individual accounts to clearing clients in the customer range, such as executing brokers. This would allow them to monitor the exposures generated by such clients and determine whether these exposures are contributing to their assessed Intraday Risk Charge. However, as we understand it, this approach is not feasible for market maker clearing clients. The ability to net offsetting positions between various market maker clearing clients is a critical aspect of the business of providing cost-efficient clearing services to such clients. This cost efficiency would be lost if the positions of each market maker clearing client were held in separate accounts. Thus, such Clearing Members are faced with the difficult decision of how to continue to provide cost-efficient clearing services to market maker clearing clients in connection with the Intraday Risk Charge. The imposition of the Intraday Risk Charge may cause such Clearing Members to assess a new, blended fee on all market maker clearing clients to help cover the charge, which may have the effect of unfairly penalizing those market maker clients that did not generate any peak intraday exposures during the prior month.

2. Impact on Executing Brokers

SIFMA members that act as executing brokers in listed options are particularly concerned about the impact of the Proposal on their business model, and these concerns are highlighted in

several comment letters on the Proposal.⁷ Executing brokers consist of OCC Clearing Members that engage in an agency execution business (referred to by OCC as “Executing Clearing Members”), as well as non-OCC members that engage in an agency execution business such as exchange floor brokers. The executing broker business model has evolved in the listed options space to allow sophisticated market participants to take advantage of the execution expertise such executing brokers provide, while allowing these market participants to continue to hold their positions at their preferred prime brokers. After an executing broker executes a client’s trade, the resulting position is transferred to the client’s OCC Clearing Member serving as their prime broker. For OCC Executing Clearing Members, they are able to take advantage of OCC’s Clearing Member Trade Assignment (“CMTA”) process to directly transfer the positions of their clients to the OCC Clearing Members serving as their prime brokers. Whether the executing broker is an OCC Executing Clearing Member or not, the business is based on the transfer of such positions by the end of the trading day to the client’s prime broker. In other words, executing brokers’ business models are based on not holding positions overnight.

Nevertheless, under the Proposal, executing brokers that are OCC Clearing Members could be faced with potentially significant margin increases in the form of the Intraday Risk Charge. To the extent such firms are unable to transfer client positions in real-time to the clients’ OCC Clearing Member serving as their prime broker, such firms would be caught by the proposed 20-minute snapshot approach and thus be subject to Intraday Risk Charges, despite the fact that the executing brokers merely execute the trades and subsequently transfer the positions to the end client’s prime broker. As other commenters have noted, the imposition of the Intraday Risk Charge on such firms could lead to the double margining of positions – once when they are held at the executing broker and once when they are transferred and held at the OCC Clearing Member serving as their prime broker.⁸

These charges would be many multiples higher than the charges to which such executing broker members are currently subject, given that they do not hold positions overnight. Moreover, the notion posited by OCC in its response to comments that real-time position transfers are even possible is not realistic, as such a change would require, among other things, a significant change in the behavior of executing brokers’ clients to make it feasible to even consider such a possibility. Of note, the Commission adopted new Exchange Act Rule 15c6-2 to speed up the process of broker-dealer clients’ providing allocations, confirmations, and affirmations to facilitate the recent move to T+1, and this change only required that such actions be taken by the end of the trading day. Similarly, executing brokers that are not OCC Clearing Members could also be subject to Intraday Risk Charges to the extent their OCC Clearing Member determines to pass along portions of its Intraday Risk Charge to such executing brokers.

OCC also notes in its response to comments that “[d]uring 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.” It is not clear what OCC’s reference to “could likely be held responsible” means, and accordingly, we request further clarification on this statement. OCC should also consider whether executing brokers that are OCC Clearing

⁷ See, e.g., (<https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-514935-1487322.pdf>).

⁸ See (<https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-514895-1487302.pdf>).

Members (i.e., Executing Clearing Members) with CMTA capabilities should be exempt from any Intraday Risk Charge, since the CMTA process would provide a mechanism to transfer positions to other OCC Clearing Members in the event such an executing broker experiences a default scenario.

OCC also notes in its response that “the impact analysis data indicated that out of 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.” Taking OCC’s numbers, 1,211 times 4.4% would equal 53 margin calls.⁹ In other words, OCC is projecting that there would be Intraday Risk Charges totaling 10% or more of a member’s net capital 53 times during a year, which seems like a lot of instances in which a member’s charge would exceed 10% of its net capital. In addition, OCC notes that for members with less than \$100M in net capital, the largest projected Intraday Risk Charge was under \$13 million, which again is a significant amount of capital for a smaller member. We also understand that for executing brokers utilizing correspondent clearing services, the pass-through amount could be much higher than \$13 million. Such firms generally do not have as much capital and thus need to rely on a correspondent relationship. The impact of the Proposal on this group of executing brokers could be especially burdensome and could negatively impact competition in the executing broker space.

It is clear from the Proposal that OCC has not considered the potential impacts of these charges on the business of executing brokers. To the extent these concerns were raised at OCC, either through its Financial Risk Advisory Council or otherwise, they are not addressed in the Proposal. In this respect, the Proposal provides no analysis of the impact the Intraday Risk Charge would have on the business of executing brokers, including whether it may drive certain executing brokers out of business and potentially lead to fewer firms providing such services. The Proposal also does not assess the potential costs faced by executing brokers to the extent they are forced to adopt essentially real-time allocation software and processes.

3. Impact on Market Makers

Similarly, it is clear from the Proposal that OCC has not considered the Proposal’s impact on the liquidity and quality of the listed options market. As noted, it is likely that options market makers will be assessed a new, blended charge that would represent a pass-through of a portion of their Clearing Members’ Intraday Risk Charge. The Proposal does not assess at all whether such additional charges on market makers will lead to wider spreads or potentially reduce the number of products for which market makers are willing to provide liquidity. The Proposal also does not discuss whether alternatives were considered to address OCC’s current deficiencies related to intraday margin. In this respect, OCC should have incorporated feedback it received from its Financial Risk Advisory Council to explore and present viable alternatives. This omission undermines the transparency and collaborative nature of the decision-making process that is essential for industry-wide buy-in and effective risk management.

⁹ We also question whether OCC might have transposed digits in the response letter - it says 1,211 in one place and 1,122 in another.

It is worth noting that most, if not all, listed options market makers are subject to the “house” margin requirement of the OCC Clearing Member through which they clear, in addition to the Commission’s net capital requirements. Critically, these firms do not see STANS margin calculations at all, and generally are not familiar with the details of how STANS works given that its details are non-public. Thus, the Proposal creates a scenario in which market makers will be subject to additional charges related to their clearing firm’s Intraday Risk Charge, yet they will not have the ability to predict or recreate those charges. This lack of transparency and predictability contemplated by the Proposal creates unnecessary uncertainty for listed options market makers, who are the core of the listed options market as the market’s liquidity providers.

4. OCC Must Thoroughly Analyze the Impact of the Proposal on Market Participants and the Listed Options Market

Accordingly, prior to moving ahead, we call on OCC to conduct a thorough analysis of the potential impact of the Proposal on listed options market participants, including executing brokers and market makers, as well as the potential impact of the Proposal on the overall liquidity and quality of the listed options market. As noted, OCC has not disclosed the potential dollar impact of the Proposal. It is also unclear how the Proposal will affect options market participants, including whether the financial burden imposed by the Proposal may drive OCC members and non-members to exit the market, potentially increasing concentration risk within the industry and reducing liquidity.¹⁰

D. The Proposed Implementation Period is Too Short

If despite these significant concerns the Commission were to approve the current Proposal, SIFMA requests that members be given significantly more time to implement the Proposal. As proposed, OCC would implement the Proposal within 120 days of its approval by the Commission. This is not nearly enough time for affected options market participants to adjust to such significant changes. In this regard, OCC Clearing Members that clear for other market participants would need to make system and process changes to adjust to the changes. These could include modifying software to track clearing clients’ exposure in a manner consistent with OCC’s proposed approach so that such Clearing Members could forecast future potential Intraday Risk Charges and take steps to mitigate such charges. These changes could also include Clearing Members establishing individual accounts for each of their executing broker clients such that they are able to individually track the exposures generated by such clients.

For executing brokers, these changes could include significant systems changes that would allow them to allocate trades in real-time. Executing brokers also may need to source significant additional capital from different providers, including bank lines of credit, to help them fund any Intraday Risk Charges to which they may be subject. Similarly, market makers would need to adjust their models to take into account potentially significant additional charges

¹⁰ To the extent any of these potential impacts is addressed in Exhibits to the Proposal, they all are marked as confidential, thus making public analysis of such impacts impossible.

to which they would be subject, which may lead to wider spreads and evaluations as to whether to continue to provide liquidity in certain products.

Collectively, these are significant changes that options market participants would need to make to be in a position to be ready for the Intraday Risk Charge. Accordingly, while we strongly urge that the Proposal be modified consistent with our suggestions above, to the extent the Commission approves it in its current form, we ask that market participants be given at least one year to implement systems to address these changes. This would be a much more reasonable period of time to adjust to the changes than what is included in the Proposal.

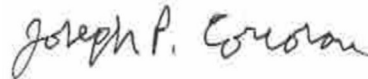
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We appreciate the opportunity to submit these comments on the Proposal. As discussed, although we support OCC's goal of addressing intraday risks in the options market, we have serious concerns that the Proposal is not appropriately tailored to address the actual trading activity of Clearing Members. We also believe the Proposal will have potentially widespread negative effects that have not been considered. As a result, OCC should take a more thoughtful and careful approach before implementing such significant changes, and should consider the alternative suggestions that we describe above. Similarly, any changes this significant will require substantial time and effort to implement, and a 120-day period will not be long enough for industry members to adopt systems changes in response to the Proposal. If you have any questions or need any additional information, please contact Ellen Greene at (212) 313-1287 or Joe Corcoran at (202) 962-7383.

Sincerely,



Ellen Greene
Managing Director
Equities & Options Market Structure



Joseph Corcoran
Managing Director and Associate General
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