

November 06, 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 (“Intraday Risk Charge”) that would be applied to all clearing member accounts to help mitigate the risks arising from intraday and overnight trading activity.²

This letter is in addition to our previous comment letter dated September 2, 2025³ where STA made certain preliminary remarks and expressed its view that the Proposal impacts all option industry participants including clearing members, agency executing brokers, interdealer brokers, market makers, retail participants and their brokers. STA requested an extension on the deadline to submit comments to enable us to gather broader industry input including possible alternatives that could achieve the Proposal’s intended goals in a more efficient manner. In the time since our last letter, we have solicited input and are pleased to offer the below general remarks and recommendations.

1. General Remarks

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/>.

² See [Release No. 34-100664; File No. SR-OCC-2024-10](#)

³ See <https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-514295-1486562.pdf>

STA agrees with the OCC's observation that there has been a significant increase in contract volumes traded on the day of their expiration - commonly referred to as short-dated options ("SDO's") and zero-dated options ("0DTE's").

STA understands how SDO and 0DTE activity poses challenges to the OCC's risk management and margin collection processes used to manage OCC's daily exposure to Clearing Members and market participants.

The OCC collects margin requirements for each marginable account calculated by OCC's proprietary System for Theoretical Analysis and Numerical Simulation ("STANS"). As noted in the Proposal, STANS margin calculation is based on end-of-day positions and therefore does not account for 0DTE option trades, 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. As such, the OCC proposes to employ a look-back calculation method in determining the Intraday Risk Charge to its Clearing Members in OCC's daily morning margin collection process. More specifically, the calculation would use portfolio position sets updated every 20 minutes from 8:30 a.m. to 6:30 p.m. CMT and at-least every hour during extended trading hours sessions from the previous month's activity.

In its response letter to concerns raised from industry comments dated September 18, 2024 ("OCC Response Letter")⁴ the OCC acknowledges these limitations and further states, "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."

It is STA's view that the Proposal's design is overly blunt, as the margin calculation process for determining the Intraday Risk Charge does not align with actual intraday risk. While a blunt approach is not, in itself, grounds for disapproval, a rule with the potential to cause significant disruptions and harm requires more careful consideration and appropriate design.

The Proposal does not provide data showing estimated costs with shorter look-back periods (like 2 weeks) and longer threshold window periods (like 120 minutes).

STA believes that the Proposal acutely impacts certain participants who perform core operational functions and liquidity provision in the listed options markets; clearing firms who clear listed options trades for customers referred to by OCC as OCC Clearing

⁴ [See] <https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-521995-1499402.pdf>

Members; execution brokers that engage in an agency execution business, referred to by the OCC as Executing Clearing Members and market makers.

We believe commenters, particularly those representing clearing firms; execution brokers and market makers, have raised legitimate objections regarding the potential harm the Proposal could inflict on their businesses.

STA believes the implementation timeline underestimates the costs and time required for firms to comply, as well as the potential impact on the rollout of the OCC's Ovation Project⁵, scheduled for June 2025.

We believe technological improvements used in the determinations of the Intraday Risk Charge and the ability for firms to allocate such charges to customers need to be part of the solution.

2. Specific Remarks and Recommendations

Negative Impact to Competition and Reasonable Barriers to Entry

A competitive landscape provides investors with the benefits of a stable marketplace and a broad selection of low-cost choices. It has long been our view that competitive markets require reasonable barriers to entry which ensure that only qualified businesses who meet industry standards are able to enter the market. On the contrary, regulatory requirements which impose unreasonable requirements create unreasonable barriers to entry that can limit competition by increasing costs for small businesses and startups, making it difficult for them to establish a foothold in the market. As a result, innovation and consumer choice can suffer, as only larger, well-funded firms can afford to meet these stringent requirements.

Options trading volumes have surged significantly, and such growth in other asset classes or financial products typically attracts new entrants in operational services. However, despite this substantial expansion, we have yet to see a corresponding influx of new service providers in critical areas such as clearing, execution brokers and market making. This absence of new participants raises valid concerns: either the barriers to entry for new firms are excessively high, or competition has compressed profit margins to a level that fails to attract new entrants.

⁵ [See] <https://www.theocc.com/company-information/occ-transformation>

We raise this point because we support remarks made by commenters that the margin calculation approach defined in the Proposal will have a disproportionate negative impact on smaller execution brokers; clearing firms and market makers who are emblematic of new participants. While STA respects that the OCC's primary responsibility is to ensure that risk taken in the listed options is properly margined, we also believe that the OCC needs to fully understand and appreciate the impact the Proposal has to smaller participants and the barriers to entry for new participants.

Industry Engagement on A Firm-by-Firm Basis

Before adopting this release, we recommend that OCC, if they have not done so already, provide all Clearing Members with detailed information estimates of the expected increases in margin requirements associated with the Proposal. As an industry trade association, we are encouraging our members to reach out as well. OCC stated in its Response Letter that it is committed to working with Clearing Members on an individual basis to help them understand the impact of the Proposal on each Clearing Member. STA applauds this strategy of direct communication with Clearing Members, particularly those firms who are either not represented or underrepresented on the OCC's Board and industry advisory committees.

Since STA has no insight into the extent of direct communications between OCC and its Clearing Members and given the limited time since the Proposal's publication, we urge the Commission to ensure that these firm-by-firm meetings were thoroughly, and their findings reflective of broad industry input. We believe that the Intraday Risk Charge will lead to increased explicit costs for participants who must establish new technology systems for added functionality and liquidity buffer arrangements to meet potential intraday margin calls. This will drain personnel and technology resources that are also dedicated to supporting the OCC's Ovation Project.

Execution Brokers - Real-Time Allocation of Trades; Suggesting the Impossible

The OCC intentionally designed the Intraday Risk Charge proposal to encompass the risk associated with all peak intraday risk increases, applying it uniformly to all Clearing Members. This means that Executing Clearing Members who do not hold positions overnight and solely engaged in providing execution functions for customers are treated equivalently to those Clearing Members providing prime broker services, which include trading executions, clearing services, financing, and custody for clients exposed to risk. Despite these differences, the OCC argues that similar treatment is warranted because 'during any potential intraday default event, the last account associated with a trade at the

time of default could likely be held responsible for covering the resulting position.' We would like to understand this better as we contend that it is ultimately the end client utilizing the execution broker's services who bears responsibility for any potential intraday default.

In its Response Letter, OCC estimates that at the close of market trading hours 57% of all two-sided contract volumes are missing direct give-up account information for which post-trade instructions are necessary. Under the terms of the Proposal, unallocated trades would be captured in the margin calculations for execution brokers and thus subject to an Intraday Risk Charge. The OCC states that execution brokers can avoid the Intraday Risk Charge if they reduce the time between trade clearance and post-trade position instruction submission. The OCC encourages Executing Clearing Members to collaborate 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.

STA views this suggested solution as so impractical that it causes us to question the amount of industry outreach that the OCC conducted in designing the Proposal. Customers, such as asset managers with multiple sub accounts and prime broker relationships, provide allocation information when their trades have been completed. Often it is the case that when the market closes, customers have unfilled residuals on their orders. In these common situations, the customer will then decide how to allocate the filled portions of their trades. Suggesting execution brokers obtain all allocation information at the point of receiving the order or prior to the order being completed is asking for the impossible because customers don't know at that time. This behavioral reality will present challenges and problems for the clearing firms of execution brokers as well.

Timeline: New Technology Systems and Procedures

OCC's Ovation Project is a major initiative aimed at modernizing and improving the technology infrastructure that supports options clearing and settlement. Specifically, it seeks to replace the OCC's existing clearing system, known as ENCORE⁶ with a more flexible and efficient cloud-based system. This modernization effort is part of the OCC's broader strategy to maintain its role as a central counterparty and ensure the stability and efficiency of the options market.

⁶ [See] <https://www.theocc.com/clearance-and-settlement/data-distribution-service-reference>

The Proposal's reporting requirements position it as a major industry initiative which the OCC would implement 125 days after receiving all necessary regulatory approvals, making an early Q1 2025 implementation possible. That would allow industry participants only five to six months from the date of rule filing to prepare for this initiative. Should the OCC move forward with implementing the Proposal, this timeline is problematic for execution brokers and clearing firms who will need to design new technology systems and procedures to avoid unnecessary harm caused by an inability to allocate the Intraday Risk Charge to their end customers. A non-exhaustive list of such systems and procedures were provided in a commenter's letter⁷ and include:

- Executing Brokers will need to enhance their risk management tools to block or more effectively surveil orders by clearing attributes, time of day, and/or margin profile.
- Executing Brokers and Correspondent Clearing firms will need to model how to effectively parse intraday positions and attribute the margin across their respective client bases.
- Executing Brokers and Correspondent Clearing firms may need to build new Allocation tools to process CMTA Transfers more efficiently in real-time to OCC.
- Executing Brokers and OCC Member Firms will have to create new surveillance processes regarding post-trade clearing adjustments to effectively monitor for misallocation.

This functionality would first need to be built for the legacy ENCORE technology, only to be re-written to comply with the OCC's migration to Ovation in summer of 2025.

As stated, STA respects the OCC's primary responsibility to ensure that risks taken in the listed options market are adequately margined, we also believe that the OCC should avoid causing unnecessary disruption and potential harm. We believe the current implementation timeline would result in such disruption and harm. It is our view that the Intraday Risk Charge will result in an increase in explicit costs for those participants who will need to establish new technology systems designed for new functionality and liquidity buffers arrangements to meet potential intraday margin calls. This will deplete personnel and technology resources that are also working towards OCC's Ovation Project.

⁷ [See DASH Letter] <https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-514935-1487322.pdf>

Conclusion

STA agrees with the OCC's observation of the significant increase in SDO and 0DTE contract volumes and the need for proper margining of this activity. However, there are industry-wide gaps—both technological and behavioral—in how the OCC calculates and collects margin for this activity from its Clearing Members, and how it is subsequently passed through from Clearing Members to their customers.

STA believes that advancements in technology for margin calculation, along with tools that enable Clearing Members to allocate Intraday Margin fees to their customers, should be part of the solution. These technological and allocation tools are not currently available under an ENCORE regime nor will they under Ovation Project; therefore, additional work and coordination between the OCC and the industry will be necessary.

As the data provided by the OCC is at the industry level rather than the individual firm level, we recommend that the OCC conduct firm-by-firm meetings and report their findings to the Commission on the areas highlighted in this letter: the costs of establishing technology systems, the impact on competition and barriers to entry, and the effects on implementing the Ovation Project. Additionally, the OCC should investigate whether shorter look-back periods, such as two weeks, and extended threshold windows, such as 120 minutes, could reduce disruptions and overall costs to industry participants while still achieving the intended goals of the Proposal.

We are confident that there is strong industry interest in collaborating with the OCC to identify alternative solutions. We urge the Commission to ensure that these firm-by-firm meetings are conducted thoroughly and that all alternatives are carefully considered.

Sincerely,



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