

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-90603; File No. SR-OCC-2020-015)

December 8, 2020

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning the Implementation of New Sufficiency Scenarios in The Options Clearing Corporation's Stress Testing Inventory

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 2, 2020, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

This proposed rule change by OCC would implement additional stress test scenarios designed to test the sufficiency of OCC's prefunded financial resources. The proposed changes to OCC's Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description ("Methodology Description") are included in Exhibit 5 of filing SR-OCC-2020-015. Material proposed to be added is underlined and material proposed to be deleted is marked in strikethrough text. All terms

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

with initial capitalization that are not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.³

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

Background

OCC performs daily stress testing using a wide range of scenarios, both hypothetical and historical,⁴ designed to serve multiple purposes.⁵ OCC's stress testing

³ OCC's By-Laws and Rules can be found on OCC's public website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

⁴ OCC's historical scenarios are intended to replicate historical events in current market conditions, which includes the set of currently existing securities, their prices, and volatility levels. These scenarios provide OCC with information regarding pre-defined reference points determined to be relevant benchmarks for assessing OCC's exposure to Clearing Members and the adequacy of its financial resources. OCC's hypothetical scenarios represent events in which market conditions change in ways that have not yet been observed. These hypothetical scenarios are derived using statistical methods (e.g., draws from estimated multivariate distributions) or created based on a mix of statistical techniques and expert judgment (e.g., a 15% decline in market prices and 50% increase in volatility).

⁵ On July 26, 2018, the Commission issued a Notice of No Objection to an advance notice by OCC concerning the adoption of a new stress testing and Clearing Fund

inventory contains scenarios designed to: (1) determine whether the financial resources collected from all Clearing Members collectively are adequate to cover OCC's risk tolerance ("Adequacy Scenarios"); (2) establish the monthly size of the Clearing Fund at an amount necessary to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure as a result of a 1-in-80 year hypothetical market event ("Sizing Scenarios"); (3) measure the exposure of the Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources to guard against potential losses under a wide range of stress scenarios, including extreme but plausible market conditions ("Sufficiency Scenarios"); and (4) monitor and assess the size of OCC's prefunded financial resources against a wide range of stress scenarios that may include newly developed stress scenarios for evaluation as well as extreme but implausible scenarios ("Informational Scenarios"). Adequacy and Informational Scenarios are not used directly to size the Clearing Fund or drive calls for additional financial resources from OCC's Clearing Members.

Pursuant to OCC Rule 609 and OCC's Clearing Fund Methodology Policy, if any of OCC's Sufficiency Scenarios identifies exposures that exceed 75% of the current

methodology. See Securities Exchange Act Release No. 83714 (July 26, 2018), 83 FR 37570 (August 1, 2018) (SR-OCC-2018-803) (Notice of No Objection to Advance Notice, as Modified by Amendments No. 1 and 2, Concerning Proposed Changes to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology). On July 27, 2018, the Commission approved a proposed rule change by OCC concerning the same proposal. See Securities Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855 (August 2, 2018) (SR-OCC-2018-008) (Order Approving Proposed Rule Change, as Modified by Amendments No. 1 and 2, Related to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology).

Clearing Fund requirement less deficits, OCC may require additional margin deposits from the Clearing Member Group(s) driving the breach. Additionally, pursuant to Rule 1001(c) and the Clearing Fund Methodology Policy, if a Sufficiency Scenario identifies a Clearing Fund draw for any one or two Clearing Member Groups that exceeds 90% of the current Clearing Fund size (after subtracting any monies deposited as a result of a margin call in accordance with a breach of the 75% threshold), OCC has the authority to reset the size of the Clearing Fund on an intra-month basis to ensure that it continues to maintain sufficient prefunded financial resources.

Proposed Change

OCC proposes to elevate four of its current Informational Scenarios to Sufficiency Scenarios. The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020. Specifically, the proposed scenarios would include price shocks representing the most extreme market decline and rally moves in March 2020 and would include variations on these scenarios designed to account for specific-wrong way risk exposures arising from cleared positions on issued exchange traded notes (“ETNs”).⁶ In their current status as Informational Scenarios, the March 2020 scenarios do not drive the size of the Clearing Fund or calls for additional

⁶ See Securities Exchange Act Release No. 87673 (December 6, 2019), 84 FR 67981 (December 12, 2019) (SR-OCC-2019-807) (Notice of No Objection To Advance Notice Related to Proposed Changes to The Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk) and Securities Exchange Act Release No. 87718 (December 11, 2019), 84 FR 68992 (December 17, 2019) (SR-OCC-2019-010) (Order Approving Proposed Rule Change Related to Proposed Changes to the Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk).

resources. However, as Sufficiency Scenarios, they would be used to measure the exposure of OCC's Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources in the form of margin or an intra-month re-sizing of the Clearing Fund. The proposed rule change would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are necessary. The proposed rule change would thereby improve OCC's ability to measure, monitor and manage its credit exposures to its participants and enhance OCC's ability to manage risks in its role as a systemically important financial market utility.

(2) Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A of the Exchange Act⁷ and the rules thereunder applicable to OCC. Section 17A(b)(3)(F) of the Exchange Act⁸ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions and, in general, protect investors and the public interest. The proposed rule change would enhance OCC's framework for measuring, monitoring, and managing its credit risks. Specifically, the proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly when OCC believes the collection of additional financial resources is necessary. The ability to appropriately size and test the sufficiency of

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

prefunded financial resources is critical to ensuring that OCC can continue to provide prompt and accurate clearance and settlement of securities and derivatives transactions in the event of a Clearing Member default and manage the risks associated with its role as a systemically important financial market utility. Accordingly, OCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.⁹

Rule 17Ad-22(e)(4)(iii)¹⁰ requires, in part, that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources (beyond those collected as margin) at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the participant family that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. Rule 17Ad-22(e)(4)(vi)(A)¹¹ further requires, in part, that such policies and procedures are reasonably designed to test the sufficiency of the covered clearing agency's total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(iii)¹² by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions. As described above, the proposed rule change would enable

⁹ Id.

¹⁰ 17 CFR 240.17Ad-22(e)(4)(iii).

¹¹ 17 CFR 240.17Ad-22(e)(4)(vi)(A).

¹² 17 CFR 240.17Ad-22(e)(4)(iii).

OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly to collect additional financial resources from its Clearing Members if the Sufficiency Scenario exposures breach the predetermined thresholds established in OCC's Rules and Clearing Fund Methodology Policy. Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's existing Methodology Description using standard predetermined parameters and assumptions. As a result, OCC believes the proposed rule change is designed to further OCC's compliance with the requirements of Rules 17Ad-22(e)(4)(iii) and (vi)(A).¹³

The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

(B) Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Exchange Act¹⁴ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. While the proposed rule change could have an impact on certain Clearing Members, OCC does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with its current, most impactful Sufficiency Scenarios.¹⁵ OCC notes, however, that the results of these

¹³ 17 CFR 240.17Ad-22(e)(4)(iii) and (vi)(A).

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

¹⁵ OCC has provided data and analysis concerning the proposed rule change in Confidential Exhibit 3 to SR-OCC-2020-015.

proposed scenarios may vary depending on the composition of each individual Clearing Member's portfolio at a given point in time. As a result, the proposed scenarios could from time to time result in more frequent or larger sufficiency stress test margin calls.

The implementation of the new Sufficiency Scenarios would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are required. The proposed changes are designed to improve OCC's ability to measure, monitor and manage its credit exposures to its participants consistent with its regulatory requirements under Rule 17Ad-22(e)(4)¹⁶ and to enhance OCC's ability to manage risks in its role as a systemically important financial market utility. Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's approved stress testing methodology using standard predetermined parameters and assumptions.¹⁷ The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020, which constitute a significant and relevant period of market stress and volatility. As noted above, OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with expectations and with OCC's current, most impactful Sufficiency Scenarios based on a reflection of current Clearing Member portfolio exposures.¹⁸ However, these scenarios provide diversification in terms of the shocks applied to individual names, which may result in meaningful differences if Clearing Member exposures change, and would help

¹⁶ 17 C.F.R. 240.17Ad-22(e)(4).

¹⁷ See supra note 5.

¹⁸ See supra note 15.

capture risks that OCC's current inventory of Sufficiency Scenarios might not capture in different market conditions. Accordingly, OCC believes that any impact on competition or OCC's Clearing Members would be necessary and appropriate in furtherance of the protection of investors and the public interest under the Act.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Exchange Act applicable to clearing agencies, and would not impact or impose a burden on competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Exchange Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2020-015 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2020-015. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules#rule-filings>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2020-015 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

J. Matthew DeLesDernier
Assistant Secretary

¹⁹ 17 CFR 200.30-3(a)(12).