

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72597; File No. SR-OCC-2014-12)

July 11, 2014

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Make Its Existing Policy Concerning Specified Concentration Limits Related to Deposits of Certain Letters of Credit Applicable to All Letters of Credit

I. Introduction

On May 20, 2014, the Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-OCC-2014-12 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on June 6, 2014.³ The Commission received no comment letters in response to the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

OCC proposed to amend OCC Rule 604 in order to make its existing policy concerning specified concentration limits related to deposits of certain letters of credit (“LC”) applicable to all letters of credit. Currently, OCC imposes concentration limits on clearing member margin deposits of LCs issued by certain non-U.S. institutions.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 72294 (June 2, 2014), 79 FR 32801 (June 6, 23, 2014) (SR-OCC-2014-12).

⁴ These concentration limits, however, are not currently applied to LCs issued by non-U.S. institutions that qualify as financial holding companies under Federal Reserve Board of Governors Regulation Y or have an affiliate that is so qualified. See 17 CFR 225. In order to be deemed a financial holding company under

Specifically, OCC limits a clearing member's margin deposits of LCs issued by such non-U.S. institutions to no more than 50% of a clearing member's total margin deposit at any given time, and no more than 20% of a clearing member's margin deposit may include an LC issued by any one of these non-U.S. institutions.⁵

Pursuant to review and analysis performed by OCC's Risk Committee, OCC is applying the existing concentration limits related to the deposit of LCs, as set forth in OCC Rule 604, Interpretation and Policy .02, applicable to all margin deposits of LCs regardless of issuer. As a result of this change, no more than 50% of a clearing member's margin on deposit may include LCs and no more than 20% of a clearing member's margin may include an LC from a single issuer. This change is intended to reduce OCC's overall credit risk exposure to LCs deposited as margin by a single clearing member and the potential adverse consequences should an LC issuer not perform upon its payment commitment after receiving a demand for payment.

OCC believes that the rule change will have a minimal impact on its clearing members because LCs comprise less than one percent of OCC's total margin deposits and are currently used by only 13 clearing members. OCC estimates that the proposal will impact three clearing members and .13% of OCC's total margin deposits. Each of these three clearing members has been advised by OCC of the proposed change and OCC

Regulation Y, among other things, the institution must make certain certifications regarding the capitalization of the depository institutions controlled by the holding company. See OCC Rule 604, Interpretation and Policy .02. See also Securities Exchange Act Release No. 5037 (November 6, 2001), 66 FR 57143 (November 14, 2001) (SR-OCC-2001-03).

⁵ Id.

stated that all of the affected clearing members have indicated that they will be able to modify its margin deposit practices to reduce its LC deposits without undue difficulty.

OCC has indicated that prior to implementation of this rule change it will publish an information memorandum to inform all clearing members of the rule change. In addition, OCC stated that it contacted clearing members with LCs on deposit that are directly affected by the filing and all clearing members will have access to information, as necessary, to better understand any potential impact the proposed rule change may have on their margin deposits at OCC.

III. Discussion

Section 19(b)(2)(C) of the Act⁶ directs the Commission to approve a self-regulatory organization's proposed rule change if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act⁷ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and to the extent applicable derivative agreements, contracts and transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

The Commission finds that the proposed rule change to enhance concentration limits related to deposits of LC and making those limits applicable to all LC is consistent

⁶ 15 U.S.C. 78s(b)(2)(C).

⁷ 15 U.S.C. 78q-1(b)(3)(F).

with Section 17A(b)(3)(F) of the Act.⁸ The Commission believes the limitations on the concentration of LC as margin deposits generally and the concentration of LCs by a particular issuer should reduce the credit risk and settlement risk to OCC associated with LCs as margin deposits by reducing the risk that an LC issuer would not be able to provide funds to OCC to close out a defaulting clearing member's positions. By reducing the risk that OCC will not be able to use the deposited LC in the event of a clearing member default, the limitations promote the prompt and accurate clearance and settlement of securities transactions and other transactions by OCC and help OCC assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible.⁹

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ See id.

IV. Conclusion

On the basis of the foregoing, the Commission concludes that the proposal is consistent with the requirements of the Act, particularly the requirements of Section 17A of the Act,¹⁰ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-OCC-2014-12) be and hereby is APPROVED.¹²

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill
Deputy Secretary

¹⁰ 15 U.S.C. 78q-1.

¹¹ 15 U.S.C. 78s(b)(2).

¹² In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).