

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82312; File No. SR-OCC-2017-009)

December 13, 2017

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Relating to The Options Clearing Corporation's Counterparty Credit Risk Management Policy

On October 12, 2017, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-OCC-2017-009 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 November 1, 2017.³ The Commission did not receive any comment letters on the proposed rule change. This order approves the proposed rule change.

I. Description of the Proposed Rule Change

This proposed rule change by OCC will formalize OCC's Counterparty Credit Risk Management Policy ("CCRM Policy"). The proposed rule change does not require any changes to the text of OCC's By-Laws or Rules.⁴

OCC stated that, as a central counterparty ("CCP") providing clearance, settlement, and risk management services, it is exposed to and must manage a range of risks, including credit risk. According to OCC, the purpose of the CCRM Policy is to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 34-81949 (Oct. 26, 2017), 82 FR 50719 (Nov. 1, 2017) (File No. SR-OCC-2017-009).

⁴ All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the OCC By-Laws and Rules.

outline OCC’s overall approach to identify, measure, monitor, and manage its exposures to direct and indirect participants, Liquidity Providers,⁵ asset custodians, settlement banks, letter of credit issuers, investment counterparties, other clearing agencies, and financial market utilities (“FMUs”)⁶ (each a “Counterparty”) arising from its payment, clearing, and settlement processes. OCC noted that the CCRM Policy is part of a broader framework used by OCC to manage credit risk, including OCC’s By-Laws, Rules, and other policies and procedures that are designed collectively to ensure that OCC appropriately manages counterparty credit risk.

The CCRM Policy outlines the key components of OCC’s framework for identifying, measuring, monitoring, and managing OCC’s exposures to its Counterparties. This framework includes: (1) the identification of credit risk, (2) Counterparty access and participation standards, (3) the measurement of Counterparty exposures, (4) the monitoring and managing of Counterparty exposures, and (5) voluntary termination of Counterparty relationships. Each of these components is described in more detail below.

A. Identification of Credit Risk

The CCRM Policy identifies various ways in which credit risk originates from the failure of a Counterparty to perform. With respect to a Clearing Member, the CCRM Policy details a number of different ways in which OCC may be exposed to credit risk.

⁵ Under the CCRM Policy, “Liquidity Provider” is defined as a Commercial Bank or a non-banking institution – generally a pension fund – that provides a committed liquidity facility to OCC.

⁶ Under the CCRM Policy, “Financial Market Utility” is defined as a derivatives clearing organization partnering with OCC to provide a cross-margin program; a clearing agency providing settlement services of securities arising from the exercise, assignment or maturity of options or futures; or the Depository providing book-entry securities transfers and asset custodian services.

This includes the potential failure of a Clearing Member to pay for purchased options, to meet expiration-related settlement obligations, or to make certain mark-to-market variation payments or initial margin deposits. It also includes the potential insufficiency of a defaulting Clearing Member's margin and Clearing Fund deposits in a liquidation scenario. Other sources of credit risk identified in the CCRM Policy include the inability of OCC to access collateral (e.g., cash or securities) from a custodian or investment counterparty that is needed to facilitate a liquidation, or a failure by an issuer of a letter of credit to honor its corresponding obligations. The CCRM Policy also identifies that certain relationships with other FMUs, such as cross-margining programs and cash market settlement services, represent critical linkages that may present certain degrees of credit exposure based on the terms and design of the linkage. The CCRM Policy also notes that OCC may face additional risks from Counterparties, such as the potential failure of a Liquidity Provider to honor a borrowing request.

B. Counterparty Access and Participation Standards

Under the CCRM Policy, OCC's management of Counterparty credit risks begins with an initial evaluation process intended to ascertain that Counterparties meet certain minimum financial and operational standards and are considered as having a low probability of defaulting on their obligations prior to engaging or effecting any new transactions or expansion of business with OCC. To accomplish this objective, OCC evaluates each Counterparty against established minimum standards of creditworthiness, overall financial condition, and operational capabilities. Pursuant to the Policy, the standards used to evaluate Counterparties shall be objective, risk-based, and publicly-disclosed to permit fair and open access. These standards shall be developed

independently for Clearing Members, Commercial and Central Banks, investment counterparties, Liquidity Providers and FMUs, accounting for differences in their regulatory reporting and overall business operations.

Clearing Membership Standards

OCC's minimum participation standards for Clearing Member are found in Article V of OCC's By-Laws, Chapters II and III of OCC's Rules, and other publicly-disclosed supplemental documentation (together, "Participation Standards Documentation"). Under the Policy, OCC's Credit Risk Management and Member Services Departments shall evaluate each Clearing Member applicant against the minimum standards of creditworthiness and for its overall financial condition and operational capabilities as provided in the Participation Standards Documentation. Such evaluation shall also consider the Counterparty's aggregation of exposure on an individual and related-entities level, as applicable, as well as any material exposure that may arise from tiered participation arrangements. The Credit Risk Management and Member Services Departments shall document the results of this evaluation in a memorandum, including the Clearing Member applicant's ability to meet relevant participation standards, and report those results to OCC's Executive Chairman, Chief Operating Officer, or Chief Administrative Officer for review and approval, where appropriate, or for recommendation to the Risk Committee or Board of Directors.⁷

⁷ Pursuant to Article V, Section 2 of OCC's By-Laws, the Executive Chairman, Chief Operating Officer and Chief Administrative Officer each have delegated authority to approve Clearing Member applicants provided that (1) there is no recommendation to impose additional membership criteria in accordance with Article V of the By-Laws and (2) the Risk Committee is given not less than five days to determine the application should be reviewed at a meeting of the Risk Committee. Pursuant to Interpretation and Policy .06 to Article V, Section 1 of

Commercial and Central Banks

OCC's minimum standards for asset custodians, settlement banks, letter of credit issuers, and investment counterparties are found in OCC Rule 604 and relevant OCC procedures. The Credit Risk Management Department shall coordinate with various departments (such as Collateral Services or Treasury) to evaluate each bank against the minimum standards of creditworthiness and for its overall financial condition and operational capabilities as provided in OCC Rule 604 and related OCC procedures. Such evaluation shall also consider the Counterparty's aggregation of exposure on an individual and related-entities level, as applicable, as well as whether OCC would be able to structure its custodial relationships in a manner that allows prompt access to its own and its Clearing Members' assets. The latter shall include holding assets at supervised and regulated institutions that adhere to generally accepted accounting practices, maintain safekeeping procedures, and have internal controls that fully protect these assets. Under the Policy, Credit Risk Management and either the Collateral Services or Treasury Department, as applicable, shall document the results of its evaluation in a memorandum, including the bank's ability to meet relevant participation standards, and report those results to OCC's Executive Chairman, Chief Operating Officer or Chief Administrative Officer, each of which shall have the authority to approve new and expanded

OCC's By-Laws, the Risk Committee has the authority to impose additional requirements on Clearing Member applicants, such as increased capital or margin requirements as well as restrictions on clearing activities. The Risk Committee also has the authority to approve waivers of certain clearing membership requirements under Article V, Section 1 of the By-Laws. Approvals of a Clearing Member business expansion by the Executive Chairman, Chief Operating Officer or Chief Administrative Officer are subsequently presented to the Risk Committee for ratification, except in limited circumstances detailed in Article V, Section 1.03(e) of OCC's By-Laws.

relationships with asset custodians, settlement banks, letter of credit issuers, investment counterparties, and Liquidity Providers.

Liquidity Providers

Under the Policy, OCC maintains internal procedures outlining the minimum standards for Commercial Banks⁸ and non-bank institutions acting as Liquidity Providers. OCC's Credit Risk Management and Treasury Departments would be responsible for evaluating each Liquidity Provider against the minimum standards of creditworthiness and for its overall financial condition and operational capabilities as provided in the procedures. Because Liquidity Providers present both credit and liquidity risk to OCC, the due diligence around such institutions shall include a review of each lender's ability to perform their commitments as well as understand and manage their liquidity risks. Pursuant to the Policy, Credit Risk Management and Treasury shall document the results of the evaluation in a memorandum, including the Liquidity Provider's ability to meet relevant participation standards, and report those results to the Executive Chairman, Chief Operating Officer or Chief Administrative Officer, each of which shall have the authority to approve new and expanded relationships with Liquidity Providers.

FMUs

Under the Policy, OCC maintains internal procedures outlining minimum standards for FMUs. OCC's Business Operations and Credit Risk Management Departments shall evaluate each FMU for its overall financial condition and operational

⁸ Under the Policy, "Commercial Bank" is defined as a banking or depository institution that is not an operating arm of a Central Bank. Commercial Bank relationships shall be governed by this Policy and all supporting bank-related procedures. Commercial Banks act as Liquidity Providers, asset custodians, settlement banks, letter of credit issuers, and investment counterparties on behalf of OCC.

capabilities as provided in the procedure. Pursuant to the CCRM Policy, before entering into a link with any FMU, the Legal Department shall assist the aforementioned business units to identify legal risks relating to rights and interests, collateral arrangements, settlement finality and netting arrangements, and financial and custody risks. The Business Operations, Credit Risk Management, and Legal Departments shall document the results of its evaluation in a memorandum, including the FMU's ability to meet relevant standards. All new and expanded FMU relationships shall be reviewed and approved by the Risk Committee and subsequently recommended for approval to the Board of Directors.

C. Measuring Counterparty Credit Risk

The CCRM Policy describes various ways in which OCC measures the credit risk posed by different Counterparties. With respect to Clearing Members, the CCRM Policy provides that OCC measures its credit exposures to Clearing Members under normal market conditions through the calculation of margin requirements and under extreme but plausible conditions through stress testing and the calculation of Clearing Fund requirements, in accordance with applicable OCC policies. Margin, Clearing Fund, and stress test results may be used by OCC's Financial Risk Management Department ("FRM") to evaluate OCC's counterparty credit risk framework and inform Clearing Member surveillance processes.

With respect to Commercial Banks, Central Banks,⁹ Liquidity Providers, and investment counterparties, OCC shall measure its credit exposures to these

⁹ Under the Policy, "Central Bank" is defined as a bank serving as a bank for both depository institutions and a government, a regulator for financial institutions, and/or a nation's money manager. Central Banks act as asset custodians on behalf

Counterparties by the balances generated from the various activities provided by these institutions in accordance with relevant internal procedures.

FMUs provide a range of services to OCC, including the Depository Trust Company (“DTC”) as collateral custodian and provider of book-entry recordkeeping of securities transfers, Chicago Mercantile Exchange Inc. (“CME”) and ICE Clear U.S. as cross-margin clearing organizations, and the National Securities Clearing Corporation (“NSCC”) as a provider of securities settlement. Under the CCRM Policy, DTC credit exposures shall be measured by the collateral balances held and the value of securities lending/borrowing transactions facilitated. CME and ICE Clear U.S. credit exposures shall be measured by the projected margin impact in the event of suspension of a cross-margin program and, therefore, the absence of risk reducing positions cleared away from OCC. NSCC exposure shall be measured by the value of securities and cash to be settled in connection with the delivery obligations settled through NSCC.

D. Monitoring and Managing Counterparty Credit Risk

The CCRM Policy also describes the manner in which OCC monitors and manages credit risk from its Counterparties. Under the Policy, OCC’s monitoring and management of such risks is comprised of “Watch Level Reporting” processes in conjunction with other tools including margin adjustments, internal credit ratings, risk examinations, and monitoring of tiered participation arrangements and dormant Counterparties.

of OCC, and OCC uses access to accounts and services at a Central Bank, when available and where determined to be practical by the Board of Directors, to enhance its management of liquidity risk. Due to the inherently low credit risk presented by Central Banks, only limited monitoring activities would be performed pursuant to relevant OCC procedures.

Watch Level Reporting Overview

Under the Policy, Counterparties are monitored by OCC's FRM, Business Operations, and Treasury Departments for ongoing compliance with the minimum participation standards described above to identify any trends that might signal the deterioration of a Counterparty's ability to timely meet its obligations. When these trends are identified, Credit Risk Management shall report on a Counterparty through OCC's Watch Level Reporting processes, which are described in further detail below. As a Counterparty approaches, or no longer meets minimum standards, FRM's monitoring heightens and, in the case of Commercial Banks and Clearing Members, increasingly rigorous protective measures may be imposed to limit or eliminate OCC's credit exposure.

Pursuant to the Policy, the Watch Level Reporting process shall be administered by OCC's Management Committee, which maintains approval authority of Watch Level parameter changes. The Watch Level Reporting process provides each of the Executive Chairman, Chief Operating Officer, and Chief Administrative Officer with authority to take action to protect OCC given the facts and circumstances of the exposure presented by a Clearing Member or Commercial Bank. Under the Policy, Credit Risk Management shall provide monthly internal reporting to FRM summarizing the circumstances relating to (i) a violation; (ii) additional risks observed and any corrective measure taken by any Clearing Member, Commercial Bank, or FMU at or above Watch Level II (described below); and (iii) monthly reporting to OCC's Credit and Liquidity Risk Working Group, Management Committee, and the Risk Committee of any Clearing Member or Commercial Bank at or above Watch Level III (described below).

Clearing Member Watch Level Reporting and Bank Watch Level Reporting

Pursuant to the CCRM Policy, the Clearing Member Watch Level Reporting process and Bank Watch Level Reporting process shall support initial and on-going participation standards by allowing OCC's Credit Risk Management Department, with the support of other FRM business units, Business Operations and Treasury, to detect business-related concerns and/or financial or operational deterioration of a Counterparty to protect OCC and its Clearing Members against the potential default of a Clearing Member or Commercial Bank. Pursuant to the CCRM Policy, the Clearing Member Watch Level Reporting process and Bank Watch Level Reporting process shall be organized into a four-tiered surveillance structure.

- **Watch Level I.** Watch Level I is the lowest tier of severity and shall be used to categorize Clearing Members and Commercial Banks presenting minimal to very low credit risk. This level of violation shall be identified but not reported.
- **Watch Level II.** This tier shall be used to categorize Clearing Members and Commercial Banks presenting low to lower moderate credit risk. This level of violation shall be identified and reported to internal personnel pursuant to FRM procedures.
- **Watch Level III.** This tier shall be used to categorize Clearing Members and Commercial Banks potentially presenting upper moderate to substantial credit risk. Violations in this tier may indicate a Clearing Member or Commercial Bank that is below early warning participation thresholds and may soon become non-compliant with OCC's minimum participation standards, as specified in Article V of OCC's By-Laws, Chapters II and III of OCC's Rules, and internal OCC

procedures. This level of violation shall be identified and reported to the Executive Chairman, Chief Operating Officer, or Chief Administrative Officer, who shall have the authority to approve the imposition or waiver of protective measures. The Risk Committee shall be informed of these violations on a monthly basis.

- **Watch Level IV.** Watch Level IV is the highest tier of severity and shall be used to categorize Clearing Members and Commercial Banks potentially presenting high to very high credit risk with a heightened probability of default. Violations in this tier may indicate a Clearing Member or Commercial Bank may imminently become or has already become non-compliant with OCC's minimum participation standards, as specified in Article V of OCC's By-Laws, Chapters II and III of OCC's Rules, and internal OCC procedures. This level of violation shall be identified and reported to OCC's Credit and Liquidity Risk Working Group, with subsequent reporting to the Executive Chairman, Chief Operating Officer, or Chief Administrative Officer, who shall have the authority to approve the imposition or waiver of protective measures, including the option to restrict business of or suspend the Clearing Member or Commercial Bank. The Risk Committee shall be promptly informed of these violations, and a meeting of the Risk Committee may occur to discuss the event.

In addition, under the Policy, if a Clearing Member is reporting that its aggregate uncollateralized stress test exposure under normal market conditions, minus the sum of base expected shortfall and stress test charges as computed under OCC's margin methodology, exceeds 75% of the Clearing Member's excess net capital, then the

Clearing Member shall be identified and reported on Watch Level II. When this exposure exceeds 100% of net capital, a Clearing Member shall be identified and reported on Watch Level III and shall be subject to a margin call for the amount of exposure exceeding net capital. A margin call shall be the standard form of protective measures for position risk monitoring and shall not require officer approval or further prompt escalation. However, Clearing Members may be reported to the Executive Chairman, Chief Operating Officer, or Chief Administrative Officer for consideration of additional protective measures.

FMU Watch Level Reporting

The FMU Watch Level Reporting process allows Credit Risk Management, with the support of other FRM business units and Business Operations, to detect business-related concerns and/or financial or operational deterioration of a FMU. Pursuant to the CCRM Policy, the FMU Watch Level Reporting process is organized into a two-tiered surveillance structure.

- **Watch Level I.** Watch Level I is the lowest tier of severity and shall be used to categorize FMUs presenting minimal to very low credit risk. This level of violation shall be identified but not reported.
- **Watch Level II.** Watch Level II is the highest tier of severity and shall be used to categorize FMUs presenting low to lower moderate credit risk. This level of violation shall be identified and reported.

Other Tools for Monitoring and Managing Credit Risk

In addition to the Watch Level Reporting processes discussed above, the CCRM Policy discusses other tools and processes used by OCC to monitor and manage credit

risks arising from its Counterparties. For example, in cases where ongoing monitoring of Clearing Members identifies circumstances impacting margin levels due to changing portfolio characteristics, market conditions, elevated Clearing Fund stress test results, upcoming holidays where trading is allowed but OCC is unable to call for additional margin deposits, and certain other situations, OCC shall have the authority to call for additional margin deposits or otherwise adjust margin requirements as further detailed in OCC's margin and Clearing Fund-related policies.

Under the Policy, OCC's Credit Risk Management department also maintains Internal Credit Ratings ("ICRs") which shall be incorporated into the Watch Level Reporting process and shall be designed to identify quarterly creditworthiness scores of Clearing Members and Commercial Banks. ICR reporting shall summarize the underlying cause of the ICR score, recent scoring trend, and exposure introduced by a Clearing Member or Commercial Bank.

In addition, the CCRM Policy provides that Credit Risk Management shall perform examinations of the risk management frameworks, policies, procedures, and practices of each Clearing Member no less than once in a three calendar year period, focusing on the risks posed to OCC. For certain exams, Credit Risk Management may coordinate with external parties to realize operational efficiencies for both the Clearing Member and OCC.

The CCRM Policy also provides that OCC's Counterparty monitoring includes managing the material risks that arise from indirect participants through tiered participation arrangements. In particular, Credit Risk Management, supported by other FRM business units and Business Operations, shall monitor the material risks that arise

from indirect participants through tiered participation arrangements. Credit Risk Management (or other FRM business units, as appropriate) shall identify these tiered participation arrangements through standard monitoring processes when they present elevated risk to the Clearing Member or OCC. Furthermore, Clearing Member risk examinations shall seek to understand how direct participants identify, measure, and manage the risks posed to OCC from indirect participants.

Additionally, under the CCRM Policy, OCC shall monitor Clearing Members, Commercial Banks, and investment counterparties during prolonged periods of inactivity, and Clearing Members shall be allowed to voluntarily enter a dormant state to reduce credit risk originating from unexpected trading activity. A dormant Clearing Member shall continuously adhere to all operational and financial standards and may reactivate its membership after submitting to an operational and financial review. OCC shall maintain sole discretion to terminate inactive Commercial Banks and investment counterparties to reduce credit risk.

E. Counterparty Credit Risk Termination

Finally, the CCRM Policy addresses the voluntary off-boarding of Counterparties. Under the Policy, voluntary off-boarding shall be performed in a manner designed to wind down all credit exposures in an orderly fashion before a relationship is terminated.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act¹⁰ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder

¹⁰ 15 U.S.C. 78s(b)(2)(C).

applicable to such organization. The Commission finds that the proposal is consistent with Section 17A(b)(3)(F) of the Act¹¹ and Rules 17Ad-22(e)(3), (e)(4), (e)(16), (e)(18), (e)(19), and (e)(20)¹² thereunder, as described in detail below.

A. Consistency with Section 17A(b)(3)(F) of the Act

The Commission finds OCC's proposed changes to be consistent with Section 17A(b)(3)(F) of the Act,¹³ which requires, among other things, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in its custody or control of for which it is responsible, in general, to protect investors and the public interest. As noted above, one of the risks OCC faces as a CCP is credit risk. OCC states that the CCRM Policy provides a framework that is designed to enable it to identify, evaluate, measure, monitor, and manage potential credit risks posed by its Counterparties. That framework includes: (1) the identification of credit risk, (2) Counterparty access and participation standards, (3) the measurement of Counterparty exposures, (4) the monitoring and managing of Counterparty exposures, and (5) voluntary termination of Counterparty relationships. Furthermore, OCC also noted that the CCRM Policy is part of a broader framework used by OCC to manage credit risk, including OCC's By-Laws, Rules, and other policies and procedures that are designed collectively to ensure that OCC appropriately manages counterparty credit risk. By formalizing the components of the CCRM Policy, OCC has taken measures to provide that its the rules are designed to assure the safeguarding of securities and funds which are

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² 17 CFR 240.17Ad-22(e)(1), (e)(4), (e)(16), (e)(18), (e)(19), (e)(20).

¹³ 15 U.S.C. 78q-1(b)(3)(A).

in its custody or control of for which it is responsible, and, in general, to protect investors and the public interest.

B. Consistency with Rules 17Ad-22(e)(3) and (e)(4)

Rules 17Ad-22(e)(3) and (e)(4)¹⁴ require each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to, among other things, (i) maintain a sound risk management framework for addressing credit risk and (ii) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. As noted above, by formalizing the CCRM Policy, OCC is organizing and describing in a central location the policies and procedures that compose its framework for the comprehensive management of credit risk. The CCRM Policy specifically describes the various processes by which OCC identifies, measures, monitors, and manages its credit exposures arising from its payment, clearing, and settlement processes. Accordingly, the Commission finds that the proposed changes are consistent with Rules 17Ad-22(e)(3) and (e)(4).¹⁵

C. Consistency with Rule 17Ad-22(e)(16)

Rule 17Ad-22(e)(16)¹⁶ requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to among other things, safeguard the covered clearing agency's own and its participants' assets and minimize the risk of loss and delay in access to these assets. According to

¹⁴ 17 CFR 240.17Ad-22(e)(3), (e)(4).

¹⁵ Id.

¹⁶ 17 CFR 240.17Ad-22(e)(16).

OCC, the access and participation requirements for Commercial and Central Banks outlined in the CCRM Policy enable it to appropriately evaluate each bank against relevant minimum standards of creditworthiness and for its overall financial condition and operational capabilities, and are therefore designed to minimize the risk of loss and delay in access to OCC's assets and its participants' assets. Accordingly, the Commission finds that these policies and procedures are consistent with the requirements in Rule 17Ad-22(e)(16).¹⁷

D. Consistency with Rule 17Ad-22(e)(18)

Rule 17Ad-22(e)(18)¹⁸ requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to among other things, establish objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access and require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency, and monitor compliance with such participation requirements on an ongoing basis. OCC stated that the CCRM Policy ensures that OCC has objective, risk-based, and publicly disclosed criteria for participation and requiring Clearing Members to have sufficient financial resources to meet their obligations to OCC. Moreover, the CCRM Policy outlines the Watch Level Reporting process used by OCC to monitor compliance with such participation requirements on an ongoing basis.

¹⁷ Id.

¹⁸ 17 CFR 240.17Ad-22(e)(18).

Accordingly, the Commission finds that these policies and procedures are consistent with the requirements in Rule 17Ad-22(e)(18).¹⁹

E. *Consistency with Rule 17Ad-22(e)(19)*

Rule 17Ad-22(e)(19)²⁰ requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in the covered clearing agency rely on the services provided by direct participants to access the covered clearing agency's payment, clearing, or settlement facilities. OCC represented that the CCRM Policy outlines the process by which OCC identifies and monitors the material risks arising from indirect participants through tiered participation arrangements, including through the use of risk examinations of its Clearing Members. Accordingly, the Commission finds that these policies and procedures are consistent with the requirements in Rule 17Ad-22(e)(19).²¹

F. *Consistency with Rule 17Ad-22(e)(20)*

Rule 17Ad-22(e)(20)²² requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to among other things, identify, monitor, and manage risks related to any link the covered clearing agency establishes with one or more other clearing agencies or FMUs. OCC represented that the CCRM Policy outlines the standards OCC uses to evaluate FMU

¹⁹ Id.

²⁰ 17 CFR 240.17Ad-22(e)(19).

²¹ Id.

²² 17 CFR 240.17Ad-22(e)(20).

Counterparties prior to entering into any link arrangement (including the evaluations OCC would perform relating to rights and interests, collateral arrangements, settlement finality and netting arrangements, and financial and custody risks that may arise due to such link arrangement) and the processes by which OCC measures and monitors the risks arising from such FMU Counterparties (including its FMU Watch Level Reporting process). Accordingly, the Commission finds that these policies and procedures are consistent with the requirements in Rule 17Ad-22(e)(20).²³

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act²⁴ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,²⁵ that the proposed rule change (SR-OCC-2017-009) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Eduardo A. Aleman
Assistant Secretary

²³ Id.

²⁴ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁵ 15 U.S.C. 78s(b)(2).

²⁶ 17 CFR 200.30-3(a)(12).