

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75528; File No. SR-OCC-2015-013)

July 27, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change to Codify Procedures for Resizing the Options Clearing Corporation's Clearing Fund on a Monthly Basis and Increasing Such Clearing Fund Size on an Intra-Month Basis

On June 19, 2015, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-OCC-2015-013 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 26, 2015.³ The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

I. Description

According to OCC, it is amending Rule 1001(a) to codify the Commission's recent approval of and non-objection to procedures for resizing the clearing fund on a monthly basis and increasing such clearing fund size on an intra-month basis to ensure OCC maintains sufficient financial resources consistent with regulatory requirements ("Procedures").⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 75260 (June 22, 2015), 80 FR 36867 (June 26, 2015) (SR-OCC-2015-013).

⁴ See Securities Exchange Act Release No. 74980 (May 15, 2015), 80 FR 29364 (May 21, 2015) (SR-OCC-2015-009) and Securities Exchange Act Release No. 74981 (May 15, 2015), 80 FR 29367 (May 21, 2015) (SR-OCC-2015-811). OCC

Specifically, OCC recently adopted the Procedures which, according to OCC, are designed to clarify for clearing members and market participants the manner in which OCC would resize the clearing fund on a monthly basis and, if necessary, collect additional financial resources through intra-day margin calls and intra-month increases of the clearing fund.⁵ According to OCC, under the Procedures, OCC continues to size the clearing fund on the first business day of each month, with the clearing fund size equal to a base amount and an additional prudential margin of safety determined by OCC, currently set at \$1.8 billion. The base amount is equal to the peak five-day rolling average of clearing fund draws⁶ observed over the preceding three calendar months. Under the Procedures, OCC must issue an intra-day margin call in the event that a projected draw on the clearing fund under stress tests conducted by OCC exceeds 75% of the then-current size of OCC's clearing fund. In addition, OCC must increase the size of the clearing fund intra-month where a projected draw, after taking into account intra-day margin collected under the Procedures, exceeds 90% of the then-current size of the clearing fund.

According to OCC, it is amending Rule 1001(a) to codify, in accordance with the Procedures, the process by which such clearing fund size: i) is determined and set on a

recently amended the Procedures. *See* Securities Exchange Act Release No. 75255 (June 22, 2015), 80 FR 36869 (June 26, 2015) (SR-OCC-2015-012) (changing the method by which certain dashboard reports are distributed).

⁵ *Id.*

⁶ According to OCC, clearing fund draws are the amounts that OCC would have been required to draw against the clearing fund under the daily idiosyncratic default and minor systemic default scenario calculations conducted by OCC (*i.e.*, the amount of projected losses not covered by margin deposits or deposits in lieu of margin).

monthly basis, and ii) may be increased on an intra-month basis. OCC believes that the proposed rule change provides greater transparency to clearing members and other market participants, because OCC's practices with regard to the monthly sizing of the clearing fund and OCC's ability to increase the clearing fund intra-month in accordance with the Procedures would be codified in the text of Rule 1001(a).

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁷ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁸ and Rule 17Ad-22(b)(3) of the Act.⁹ Rule 17Ad-22(b)(3) of the Act requires OCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.¹⁰ OCC is amending Rule 1001(a) to reflect the process by which OCC determines its clearing fund size on a monthly basis and increases its clearing fund size on an intra-month basis. As stated above, OCC already adopted

⁷ 15 U.S.C. 78s(b)(2)(C).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 17 CFR 240.17Ad-22(b)(3).

¹⁰ *Id.*

Procedures that reflect this change.¹¹ By amending Rule 1001(a) to codify the Procedures, as described above, and thus permitting OCC to take action pursuant to the Procedures, OCC should be able to be more responsive to sudden increases in exposure and less sensitive to short-run reductions in exposure that could inappropriately reduce the overall size of the clearing fund. As a result, OCC should be in a better position to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.

For these same reasons, OCC's rule change is consistent with Section 17A(b)(3)(F) of the Act,¹² which requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities 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. By maintaining financial resources in this manner, OCC is less likely to be subject to disruptions in its operations as a result of a default of a participant family, thereby facilitating the prompt and accurate clearance and settlement of securities transactions and assuring the safeguarding of securities and funds which are in the custody or control of OCC or for which it is responsible.

¹¹ *See supra* note 4.

¹² 15 U.S.C. 78q-1(b)(3)(F).

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹³ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change (SR-OCC-2015-013) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Robert W. Errett
Deputy Secretary

¹³ 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).

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).