

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-90406; File No. SR-OCC-2020-014)

November 12, 2020

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Adopt the OCC Third-Party Risk Management Framework and Retire the OCC Counterparty Credit Risk Management Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 4, 2020, the Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“SEC” or “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 The Options Clearing Corporation (“OCC”) would adopt a Third-Party Risk Management Framework (“TPRMF”) and retire the Counterparty Credit Risk Management Policy (“CCRMP”). The TPRMF and CCRMP are included in Exhibit 5 of filing SR-OCC-2020-014. The TPRMF is being submitted in its entirety as new rule text. Additionally, attached as exhibits to filing SR-OCC-2020-014 are marked changes to OCC’s rules that reference the CCRMP. These include the: Risk Management Framework Policy (Exhibit 5c to filing SR-OCC-2020-014); Liquidity Risk Management Framework (Exhibit 5d to filing SR-OCC-2020-014); Margin Policy

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

(Exhibit 5e to filing SR-OCC-2020-014); and Collateral Risk Management Policy (Exhibit 5f to filing SR-OCC-2020-014). The proposed rule change does not require any changes to the text of OCC's By-Laws or Rules.

OCC has separately submitted certain internal procedures related to the TPRMF, which are included in this filing as Exhibits 3a-j to filing SR-OCC-2020-014, and for which OCC has requested confidential treatment. These Exhibits to filing SR-OCC-2020-014 are being provided as supplemental information to the filing and would not constitute part of OCC's rules, which have been provided in Exhibit 5 to filing SR-OCC-2020-014.

All capitalized terms that are not otherwise 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.

³ OCC's By-Laws and Rules can be found on OCC's website: <http://optionsclearing.com/about/publications/bylaws.jsp>.

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

(1) Purpose

Background

On September 28, 2016, the Commission adopted amendments to Rule 17Ad-22⁴ and added new Rule 17Ab2-2⁵ pursuant to Section 17A of the Securities Exchange Act of 1934 (“Exchange Act”)⁶ and the Payment, Clearing and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)⁷ to establish enhanced standards for the operation and governance of those clearing agencies registered with the Commission that meet the definition of a “covered clearing agency,” as defined by Rule 17Ad-22(a)(5)⁸ (collectively, the rules are herein referred to as “CCA” rules). The CCA rules require that covered clearing agencies, among other things:

“[E]stablish, implement, maintain and enforce written policies and procedures reasonably designed to...[m]aintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which...[i]ncludes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks

⁴ 17 CFR 240.17Ad-22.

⁵ 17 CFR 240.17Ab2-2.

⁶ 15 U.S.C. 78q-1.

⁷ 12 U.S.C. 5461 et. seq.

⁸ 17 CFR 240.17Ad-22(a)(5).

that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually.”⁹

OCC proposes to adopt the proposed TPRMF, which would replace the CCRMP and provide an overview of OCC’s overall approach to Third-Party¹⁰ risk management. The proposed TPRMF would identify the risks that pertain to OCC’s Third-Party relationships and the actions taken by OCC at each stage of the relationship. OCC plans to make the proposed TPRMF publicly available on its website, which would provide transparency into OCC’s approach to Third-Party risk management for interested market participants. Currently, the CCRMP includes information about risk management related to direct and indirect participants, Liquidity Providers, asset custodians, settlement banks, letter of credit issuers, investment counterparties, and financial market utilities (“FMU”) arising from its payment, clearing, and settlement processes. Under the proposed TPRMF, OCC would consolidate into one document its process for managing the risks associated with all Third-Party relationships across the entire lifecycle of their relationship with OCC. OCC believes the consolidation provides a more comprehensive and clear presentation of OCC’s Third-Party risk management without requiring a reader to seek multiple sources.

⁹ 17 CFR 240.17Ad-22(e)(3). OCC is defined as a covered clearing agency under the CCA rules, and therefore is subject to the requirements of the CCA rules, including Rule 17Ad-22(e)(3).

¹⁰ Under the proposed TPRMF, a Third-Party would be defined as: a Clearing Member, Clearing Bank, custodians, liquidity provider, investment counterparty, financial market utility, Exchange, or vendor, which also has: (i) a relationship with OCC where products and/or services are exchanged; (ii) other ongoing business relationships with OCC; or (iii) responsibility for OCC associated records.

Proposed Third-Party Risk Management Framework

The proposed TPRMF would state that as a central counterparty, OCC is exposed to risks arising from its Third-Party relationships. The proposed TPRMF would outline OCC's approach to identify, measure, monitor, and manage risks arising from Third-Party relationships including: Clearing Members; Clearing Banks, custodians, liquidity providers and investment counterparties ("Financial Institutions"); FMUs;¹¹ Exchanges;¹² and vendors.

The proposed TPRMF would be approved annually by the Risk Committee of OCC's Board ("Risk Committee") and implemented by the OCC Management Committee ("MC").

Risk Identification

The proposed TPRMF would state that OCC faces risks associated with its Third-Party relationships, including:

- Financial risks arising from a Clearing Member failing to meet its financial obligations to OCC including, but not limited to, obligations related to settlement, margin, and Clearing Fund. OCC may also face financial risks from other Third-Parties not meeting their obligations to OCC, including, but not limited to, facilitating daily settlements, providing timely access to collateral, honoring liquidity draw requests, or meeting obligations under an agreement.

¹¹ Under the proposed TPRMF, FMUs may include any person that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among Financial Institutions or between Financial Institutions and the person.

¹² Under the proposed TPRMF, Exchange relationships may include options exchanges, futures markets, OTC Trade Sources or Loan Markets.

- Operational risks arising from errors, disruptions, failures, or the inability of a Third-Party to fulfill its obligations to OCC. These risks include a disruption preventing OCC from completing trade processing, daily settlements, accessing collateral, or safeguarding OCC property, equipment, or personnel.
- Information Technology and Security risks arising when a Third-Party is unable to safeguard OCC data or maintain capabilities or services to support OCC's operations.
- Legal and Regulatory risks arising when a Third-Party fails to fulfill its obligations to OCC. These risks include exposure to potential litigation or regulatory compliance concerns.

Relationship Lifecycle

The proposed TPRMF would state that OCC's relationship lifecycle is designed to identify, measure, monitor, and manage Third-Party risks. The proposed TPRMF would state that the lifecycle consists of three stages.

- On-Boarding – The proposed TPRMF would state that Third-Parties are evaluated to determine whether they can engage in or expand a relationship with OCC. The proposed TPRMF would state that after evaluation, OCC completes any operational tasks necessary to activate the relationship.
- Ongoing Monitoring – The proposed TPRMF would state that Third-Parties are monitored for compliance with standards, the presence of additional or increased risks, and fulfillment of contractual obligations. The proposed TPRMF would state that ongoing monitoring is conducted based upon the nature of each relationship and is commensurate with the risks posed by the Third-Party.

- Off-Boarding – The proposed TPRMF would state that Third-Parties or OCC may elect to terminate a relationship. The proposed TPRMF would state that following the determination to terminate a relationship, OCC completes any operational tasks necessary to off-board the relationship.

The proposed TPRMF would state that Third-Parties that have multiple relationships with OCC are subject to the processes described below for each type of relationship. The proposed TPRMF would state that OCC recognizes that multiple relationships with a single entity may result in additional risks (as identified above) and incorporates this into its on-boarding and ongoing monitoring by reviewing affiliated relationships and their exposures at the Credit and Liquidity Risk Working Group (“CLRWG”).

The proposed TPRMF would state that as described below, risks identified throughout the relationship lifecycle are reported and escalated through associated working groups. The proposed TPRMF would state that working groups are cross-departmental and support OCC’s business as assigned by the MC. The proposed TPRMF would state that each working group has a chair and designated MC member who are responsible to determine the matters to be escalated to the MC. The proposed TPRMF would state that the working groups identified in the TPRMF have defined decision-making authority, functions and responsibilities as defined in the associated working group procedure. The proposed TPRMF would state that the working groups that support the activities described in the TPRMF are: CLRWG, Exchange Working Group (“EWG”), and Vendor Risk Working Group (“VRWG”).

Third-Party Relationship Management

Clearing Members

The proposed TPRMF would state that OCC's membership standards are designed to be objective and risk-based, and are publicly disclosed in OCC's Rules and By-Laws. The proposed TPRMF would state that annually, Business Operations, Financial Risk Management ("FRM"), Treasury, and Third-Party Risk Management ("TPRM") assess the adequacy of OCC's membership standards to address the management of risks presented by Clearing Members and the processes used to monitor initial and ongoing compliance with those standards, in accordance with the CLRWG Procedure. The proposed TPRMF would state that the review may contain recommendations to change the standards or monitoring processes. The proposed TPRMF would state that the results of the annual assessment are summarized for consecutive review and approval by the CLRWG, MC, Risk Committee, and if rule changes are necessary, Board.

On-Boarding: The proposed TPRMF would state that Business Operations, FRM, and TPRM complete a risk-based evaluation of Clearing Member applicants by evaluating their financial resources, operational capacity, personnel, and facilities against OCC's membership standards. The proposed TPRMF would state that FRM presents the results of this evaluation to the CLRWG and other key stakeholders as identified within Article V, Section 2 of OCC's By-Laws for review and approval.

Ongoing Monitoring: The proposed TPRMF would state that Clearing Members are monitored for ongoing compliance with OCC's membership standards. The proposed TPRMF would state that FRM, with support from Business Operations and TPRM,

performs Watch Level reporting and ongoing monitoring of financial and operational risks. The proposed TPRMF would state that in addition to or in support of Watch Level reporting, Business Operations and FRM conduct the following processes to monitor Clearing Members:

- Determining an internal credit rating to identify creditworthiness;
- Performing periodic examinations to evaluate Clearing Member risk management policies, procedures, and practices; and
- Evaluating material risks related to customers of Clearing Members.

The proposed TPRMF would state that FRM provides informational Watch Level¹³ reporting at meetings of the CLRWG, MC, and Risk Committee that summarizes the circumstances leading to violations of higher tier Watch Level criteria, additional risks observed, and any corrective measures taken by such Clearing Members.

The proposed TPRMF would state that should a Clearing Member approach or no longer meet minimum membership standards, protective measures may be imposed to limit or eliminate OCC's counterparty exposure. The proposed TPRMF would state that

¹³ Under the proposed TPRMF, Watch Level would be defined as: OCC assigns a level of required monitoring and reporting (i.e., a "Watch Level") based on the identification of events or trends that might signal the deterioration of an entity's financial or operational ability to timely meet its future obligations to OCC. Watch Level is a tiered structure with financial (e.g., capital and profitability), operational (e.g., operational difficulties and late financial report submissions), and general business (e.g., risk management issues and business restrictions by another SRO) criteria at each tier. Reaching the criteria at higher tier levels signals a more material event or trend has been detected and an entity may require heightened risk management. The CLRWG may recommend changes to Watch Level criteria to the MC, which maintains approval authority for recommended changes. FRM is responsible for implementing all approved Watch Level criteria changes.

OCC maintains authorities in its Rules (Chapter III, Chapter VI Rule 608, and Chapter VII Rules 704 and 707) to act to protect OCC, given the facts and circumstances of the exposure presented by a Clearing Member, including but not limited to the imposition of additional monitoring, changes to margin requirements or composition, or suspension of some or all product and account approvals.

The proposed TPRMF would state that Business Operations, FRM, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of Clearing Member financial, operational, legal, and regulatory risks and may raise matters for consideration to the CLRWG. The proposed TPRMF would state that the CLRWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the CLRWG Procedure.

Off-Boarding: The proposed TPRMF would state that a Clearing Member may voluntarily terminate its membership. The proposed TPRMF would state that upon request for termination, Business Operations and FRM ensure all financial exposures and operational capabilities are wound down and all obligations to OCC are satisfied before the relationship is terminated. The proposed TPRMF would state that in the event a Clearing Member is suspended by OCC, the suspension will be managed in accordance with the Default Management Policy.

Clearing Banks, Custodians, Liquidity Providers and Investment Counterparties

The proposed TPRMF would state that OCC maintains relationships with Financial Institutions that facilitate clearance and settlement activities, manage collateral, provide liquidity, and serve as investment counterparties.

On-Boarding: The proposed TPRMF would state that FRM and TPRM, with support as needed from Business Operations and Treasury, complete a risk-based evaluation of each entity by evaluating its financial resources and operational capacity. The proposed TPRMF would state that for custodians, the evaluation considers whether a relationship is structured to allow prompt access to OCC and Clearing Member assets and whether the custodian is a supervised and regulated institution that adheres to generally accepted accounting practices, maintains safekeeping procedures, and has controls that fully protect these assets. The proposed TPRMF would state that the results of the evaluation are presented to the CLRWG for review and recommendation for approval prior to presentation to the Chief Executive Officer or Chief Operating Officer, each of whom has the authority to approve such relationships.

Ongoing Monitoring: The proposed TPRMF would state that Business Operations, FRM, Treasury, and TPRM monitor the financial, operational, legal, and regulatory risks related to Financial Institution relationships. The proposed TPRMF would state that this monitoring includes Watch Level reporting, material agreement reviews, and ongoing monitoring of financial and operational risks. The proposed TPRMF would state that should Watch Level reporting detect potential issues or trends that might indicate the deterioration of a Financial Institution's ability to perform, protective measures that may be applied include, but are not limited to, modifying the business relationship or termination of the relationship.

The proposed TPRMF would state that Business Operations, FRM, Treasury, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of a Financial Institution's financial, operational, legal, and regulatory

risks and may raise matters for consideration to the CLRWG. The proposed TPRMF would state that the CLRWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the CLRWG Procedure.

Off-Boarding: The proposed TPRMF would state that a Financial Institution relationship may be terminated by the Financial Institution or OCC, pursuant to applicable agreements. The proposed TPRMF would state that the Chief Executive Officer or Chief Operating Officer, each of whom has the authority, must approve the termination of a Financial Institution relationship initiated by OCC. The proposed TPRMF would state that OCC may terminate a relationship if risks rise to an unacceptable level or a relationship is no longer required. Business Operations, FRM, Treasury, and Legal perform activities necessary to off-board the relationship in accordance with the agreement between OCC and the applicable Financial Institution.

Financial Market Utilities

The proposed TPRMF would state that FMUs provide OCC with a range of services, including custody, stock loan processing, cross-margin programs, and securities settlement.

On-Boarding: The proposed TPRMF would state that Business Operations, FRM, Legal, and TPRM consider an FMU's financial condition, operational capabilities, and any legal or regulatory risks associated with the relationship during the on-boarding process. The proposed TPRMF would state that the CLRWG reviews this evaluation and recommends approval prior to presentation to the Chief Executive Officer or Chief Operating Officer, each of whom has the authority to approve such relationships. The

proposed TPRMF would state that on-boarding of the relationship may be subject to completion of any necessary agreements or regulatory filings.

Ongoing Monitoring: The proposed TPRMF would state that Business Operations, FRM and TPRM monitor the financial, operational, legal, and regulatory risks related to FMU relationships. The proposed TPRMF would state that this monitoring includes Watch Level reporting, material agreement reviews, and ongoing monitoring of financial and operational risks.

The proposed TPRMF would state that Business Operations, FRM, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of an FMU's financial, operational, legal, and regulatory risks and may raise matters for consideration to the CLRWG. The proposed TPRMF would state that the CLRWG may take action or escalate the matter to the MC in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the CLRWG Procedure.

Off-Boarding: The proposed TPRMF would state that an FMU relationship may be terminated by the FMU or OCC, pursuant to applicable agreements. The proposed TPRMF would state that the Chief Executive Officer or Chief Operating Officer, each of whom has the authority, must approve the termination of an FMU relationship initiated by OCC. The proposed TPRMF would state that Business Operations, FRM, Legal, and TPRM coordinate the activities necessary to off-board the relationship, including, but not limited to, the wind down of all services with the FMU and, if necessary, revising OCC policies and procedures and filing rule changes with OCC's regulators after receiving the appropriate internal approvals.

Exchanges

The proposed TPRMF would state that OCC provides clearing services for Exchanges pursuant to applicable agreements (Exchange agreements are filed with OCC's regulators, as required). The proposed TPRMF would state that under these agreements, OCC clears products including equity and index options, commodity contracts, treasury futures, security futures, and stock loan transactions.

On-Boarding: The proposed TPRMF would state that Product and Business Development, in coordination with stakeholders which may include, but are not limited to, FRM, Business Operations, and TPRM, completes an evaluation of proposed Exchange relationships, including assessing whether an Exchange meets OCC's qualification requirements (as further described in the OCC By-Laws, Article VIIA – Equity Exchanges and Article VIIB – Non-Equity Exchanges). The proposed TPRMF would state that the due diligence performed for a proposed Exchange relationship is presented to the EWG for review and subsequently to the MC for approval. The proposed TPRMF would state that a summary of due diligence and on-boarding activities are presented to the Board for approval to launch.

Ongoing Monitoring: The proposed TPRMF would state that Business Operations and TPRM monitor the operational, legal and regulatory risks related to Exchange relationships. The proposed TPRMF would state that such relationships are monitored for connectivity and trade activity on an ongoing basis. The proposed TPRMF would state that Exchange monitoring allows for internal escalation to Production Support and the EWG, and externally to Exchanges.

The proposed TPRMF would state that Business Operations and TPRM conduct reviews to assess an Exchange's operational performance, overall financial condition, and ability to meet contractual obligations. The proposed TPRMF would state that to assess operational performance, Business Operations executes testing activities throughout the year aimed at mitigating operational risk, including the requirement that all Exchanges must participate in annual disaster recovery tests. The proposed TPRMF would state that in addition, Business Operations supports external testing with all Exchanges upon request or related to OCC system changes and enhancements. The proposed TPRMF would state that TPRM monitors the financial condition of Exchanges and evaluates whether an Exchange's operations meet its contractual obligations. The proposed TPRMF would state that Business Operations facilitates annual meetings with each Exchange that include an operational performance review, communicate updates about upcoming OCC system enhancements and changes, and seek feedback.

The proposed TPRMF would state that Business Operations and TPRM provide reporting to the EWG, comprised of results from ongoing monitoring and management of an Exchange's financial, operational, legal and regulatory risks and may raise matters for consideration to the EWG. The proposed TPRMF would state that the EWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the EWG by the MC in the EWG Procedure.

Off-Boarding: The proposed TPRMF would state that an Exchange relationship may be terminated by the Exchange or OCC, pursuant to the applicable Exchange agreement. The proposed TPRMF would state that upon request for termination by the Exchange, Business Operations notifies the EWG and the MC to discuss any immediate

actions such as limiting connectivity with the Exchange to mitigate exposure to operational, legal, or regulatory risks and to determine a termination date.

The proposed TPRMF would state that additionally, Business Operations leads the development of a deployment plan to identify the departments and required actions necessary to reduce any interim risk prior to termination, which may include performing clearing system maintenance and limiting or removing connectivity to the Exchange. The proposed TPRMF would state that Business Operations and other supporting departments coordinate and perform activities necessary to off-board the relationship in accordance with the applicable Exchange agreement.

Vendors

The proposed TPRMF would state that OCC engages and maintains vendor relationships for various purposes, including to accomplish its strategic objectives, outsource operational activities, and assist in compliance with legal and regulatory obligations. The proposed TPRMF would state that all Third-Party relationships that are not Clearing Members, Financial Institutions, FMUs, or Exchanges are treated as vendor relationships.

On-Boarding: The proposed TPRMF would state that during on-boarding, TPRM works with the business area requesting the vendor to assign a vendor relationship manager (“VRM”) who is obligated to manage the vendor relationship and execute the phases of the vendor relationship lifecycle. The proposed TPRMF would state that TPRM coordinates with the VRM to complete an evaluation of inherent risks posed by the vendor relationship. The proposed TPRMF would state that the evaluation of inherent risk results in a vendor risk tier which is used to inform the level of due diligence and

frequency of monitoring for each vendor. The proposed TPRMF would state that due diligence is based on the inherent risks identified and may include a review of financial health, operational capacity, and other standards based on the relationship.

The proposed TPRMF would state that any potential risk issues identified are presented to the VRM and OCC's Legal Department for review. Potential risk issues may also be shared with the VRWG. The proposed TPRMF would state that an agreement that addresses control and business requirements is then negotiated with the vendor and executed by an OCC officer (an OCC Vice President or above).

Ongoing Monitoring: The proposed TPRMF would state that VRMs and TPRM monitor vendors to assess whether they are delivering services as required by applicable agreements. The proposed TPRMF would state that the scope and frequency of monitoring is determined by the vendor risk tier and inherent risks identified during onboarding. The proposed TPRMF would state that monitoring may include reviewing a vendor's financial health, operational capacity, and other standards based on the relationship's inherent risks.

The proposed TPRMF would state that TPRM provides reporting to the VRWG, comprised of results from ongoing monitoring and management of a vendor's financial, operational, legal, and regulatory risks and may raise matters for consideration to the VRWG. The proposed TPRMF would state that the VRWG may take action (e.g., additional monitoring, require contingency plans, and additional contractual requirements) or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the VRWG by the MC in the Vendor Risk Working Group Procedure.

Off-Boarding: The proposed TPRMF would state that a vendor relationship may be terminated by the vendor or OCC, pursuant to applicable agreements. The proposed TPRMF would state that OCC mitigates exposure to operational, legal, and regulatory risk and performs activities necessary to off-board the relationship in accordance with the applicable vendor agreement.

Retirement of Counterparty Credit Risk Management Policy

OCC proposes retiring the CCRMP and replacing it with the proposed TPRMF. Currently, the CCRMP includes information about the Third-Party risk management lifecycle for Clearing Members, Financial Institutions, and FMUs. The information related to the Third-Party risk management lifecycle (on-boarding, ongoing monitoring and off-boarding) is now included in the proposed TPRMF. The proposed TPRMF also includes information about the Third-Party risk management lifecycle for Exchanges and Vendors, and OCC believes consolidating its Third-Party risk management lifecycle information into one publicly available document will provide for greater efficiency and transparency.

Additionally, by reconciling procedural information that was previously in the CCRMP with OCC's existing procedures, OCC was able to eliminate redundancy that could lead to confusion. In the proposed TPRMF, the Third-Party risk management lifecycle for each entity type is described. Detailed supporting procedural information that covers the various Third-Party relationships, lifecycle phases and governance steps is provided for in OCC's procedures.

The below table summarizes where the information currently in the CCRMP will reside following its proposed retirement. The left column lists the sections of the current

CCRMP, the right column indicates where the information will be available under the proposed rule changes, including in the TPRMF and OCC Rules and By-Laws, as well as related OCC procedures. The CCRMP applies only to Clearing Members, Financial Institutions, and FMUs. Therefore, the below table only illustrates information related to those Third-Parties. A comprehensive statement about the Third-Party risk management lifecycle approach for Exchanges and Vendors has not been previously filed as a rule.

CCRMP Section	Location in Proposed Revised Structure
I. Purpose	No longer necessary, as the CCRMP will be retired. TPRMF includes an Executive Summary appropriate to that document.
II.A. Identification of Credit Risk	<p>TPRMF Section II: Risk Identification</p> <p>In the TPRMF, OCC has defined the risks it faces to include financial risks, operational risks, information technology and security risks, and legal and regulatory risks. The credit risk areas identified in the CCRMP are covered in the broader OCC definition of financial risks in the TPRMF. The teams monitoring credit risk continue to monitor for each potential area of credit risk in accordance with OCC’s procedures for each type of Third-Party relationship.</p> <p>OCC does not believe this reorganization changes the risks faced by OCC or the rights and obligations of OCC.</p>
II.B. Counterparty Access and Participation	<p>TPRMF Section III: Relationship Lifecycle (On-Boarding)</p> <p>TPRMF Section IV: Third-Party Relationship Management (Clearing Members, Financial Institutions and FMUs)</p> <p>OCC By-Laws Articles IV and Article V, Section 1.03 (e) and Section 2</p> <p>OCC Rules Chapters II and III, Rule 604</p> <p>The information about how OCC on-boards and monitors the ongoing compliance with standards of its Third-Party relationships is summarized in the proposed TPRMF relationship lifecycle overview and then in greater detail in the section related to each Third-Party type. The proposed TPRMF is organized by Third-Party type where the CCRMP is organized by relationship phase. While the sections have been reorganized and the drafting style has been changed from stating what OCC “shall” do to statements of what OCC does, the approach to risk management for Clearing Members, Financial Institutions and FMUs (e.g., OCC’s procedures require monitoring for a low probability of</p>

	<p>defaulting on obligations and assessing potential risks presented by indirect participants) during on-boarding and initial approval has not changed.</p> <p>Additionally, specific information related to the qualification and approval of Clearing Members and Financial Institutions is currently publicly available in the OCC Rules and By-Laws. OCC modified the approval process for FMUs to reflect its practices more accurately. While the Board approves any project that would require the on-boarding of an FMU, the final authority to implement the relationship is maintained by the CEO or COO, consistent with the approval structure OCC utilizes for Financial Institutions. The TPRMF is consistent with the management structure changes previously approved by the Commission.¹⁴</p> <p>Finally, on-boarding is done in accordance with OCC’s procedures for each type of Third-Party relationship.</p>
<p>II.C. Measuring Counterparty Credit Risk</p>	<p>TPRMF Section III: Relationship Lifecycle (Ongoing Monitoring)</p> <p>TPRMF Section IV: Third-Party Relationship Management (Clearing Members, Financial Institutions and FMUs)</p> <p>The information about how OCC monitors its established Third-Party relationships on an ongoing basis is summarized in the proposed TPRMF relationship lifecycle overview and then in greater detail in the section related to the on-going monitoring of each Third-Party type. The proposed TPRMF is organized by Third-Party type where the CCRMP is organized by relationship phase. While the sections have been reorganized and the drafting style has been changed from stating what OCC “shall” do to statements of what OCC does, the approach to risk management for Clearing Members, Financial Institutions and FMUs (e.g., OCC’s procedures require measurement and reporting of credit risk and other exposures) during ongoing monitoring has not changed.</p> <p>Additionally, the relationship lifecycle section in the proposed TPRMF states that OCC recognizes that multiple relationships with a single entity may result in concentration risk and incorporates this into its monitoring and reporting processes. Finally, ongoing monitoring is done in accordance with OCC’s procedures for each type of Third-Party relationship.</p>
<p>II.D. Monitoring and Managing Counterparty Credit Risk</p>	<p>TPRMF Section III: Relationship Lifecycle (Ongoing Monitoring)</p> <p>TPRMF Section IV: Third-Party Relationship Management (Clearing Members, Financial Institutions and FMUs)</p> <p>The information about how OCC monitors its established Third-Party relationships on an ongoing basis is summarized in the proposed TPRMF</p>

¹⁴ See Securities Exchange Act Release No. 34–85129 (February 13, 2019), 84 FR 5129 (February 13, 2019) (SR-OCC-2018-015).

	<p>relationship lifecycle overview and then in greater detail in the section related to the on-going monitoring of each Third-Party type. The proposed TPRMF is organized by Third-Party type where the CCRMP is organized by relationship phase. While the sections have been reorganized and the drafting style has been changed from stating what OCC “shall” do to statements of what OCC does, the approach to risk management for Clearing Members (e.g., OCC’s procedures require monitoring for potential risks presented by indirect participants), Financial Institutions and FMUs during ongoing monitoring has not changed.</p> <p>In this section, OCC proposes to maintain the information related to OCC’s program for Watch Level reporting but remove the specificity about what constitutes the Watch Level Tiers for Clearing Members, Financial Institutions and FMUs. OCC proposes to define the term Watch Level in the TPRMF and use it consistently throughout the on-going monitoring sections related to Clearing Members (and related indirect participants), Financial Institutions and FMUs. In each of these sections, the proposed TPRMF would describe OCC’s utilization of Watch Level reporting and the steps that can be taken if a Third-Party is trending towards lower creditworthiness. OCC proposes to remove the information about what constitutes each Watch Level tier from its rules and maintain this information in its procedures. OCC believes this is appropriate as it would allow OCC to react to changing or unforeseen circumstances that may call for an update to its tiering immediately.</p> <p>Finally, ongoing monitoring is done in accordance with OCC’s procedures for each type of Third-Party relationship.</p>
<p>II.E. Counterparty Credit Risk Termination</p>	<p>TPRMF Section III: Relationship Lifecycle (Off-Boarding)</p> <p>TPRMF Section IV: Third-Party Relationship Management (Clearing Members, Financial Institutions and FMUs)</p> <p>The information about how OCC off-boards Third-Party relationships is summarized in the proposed TPRMF relationship lifecycle overview and then in greater detail in the section related to the off-boarding of each Third-Party type. The proposed TPRMF is organized by entity type where the CCRMP is organized by relationship phase. While the sections have been reorganized and the drafting style has been changed from stating what OCC “shall” do to statements of what OCC does, the approach to risk management for Clearing Members, Financial Institutions and FMUs during off-boarding monitoring has not changed.</p> <p>Finally, off-boarding is done in accordance with OCC’s procedures for each type of Third-Party relationship.</p>

Proposed Corresponding Changes to Risk Management Framework Policy, Liquidity Risk Management Framework, Margin Policy, and Collateral Risk Management Policy

OCC additionally proposes to make changes to its rule filed documents that refer to the CCRMP. OCC believes this change will not substantively alter these documents, but rather refer readers to the TPRMF which will provide information related to the risk management of all OCC Third-Parties in one document.

OCC proposes to update all references to the CCRMP in the Risk Management Framework Policy to refer to the TPRMF. Additionally, OCC proposes to update references to the Third-Party Risk Management Policy¹⁵ in the Risk Management Framework Policy to also refer to the TPRMF. Similarly, OCC proposes to update all references to the CCRMP and Third-Party Risk Management Policy in the Liquidity Risk Management Framework and Margin Policy to refer to the TPRMF. Finally, OCC proposes to update references to the CCRMP in the Collateral Risk Management Policy to refer to the TPRMF. In some cases, these proposed revisions include combining redundant references to the CCRMP in favor of one reference to the TPRMF. Lastly, OCC proposes to remove, rather than update, a paragraph in the Collateral Risk Management Policy related to cross-margining that refers to the CCRMP as it is redundant with the Margin Policy. OCC believes the redundant description does not need to remain in both rule filed documents.

¹⁵ The OCC Third-Party Risk Management Policy has never been filed as a rule, and will be retired upon approval of the TPRMF.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act¹⁶ requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, and in general, to protect investors and the public interest. OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act¹⁷ because OCC's TPRMF details OCC's approach to managing risks associated with Third-Parties. Third-Parties are involved in OCC's clearance and settlement process in various ways and therefore present risks to OCC's ability to promptly and accurately clear and settle securities transactions. The following provides one example for each Third-Party. Clearing Members present risk if they are not able to meet their financial obligations to OCC; Financial Institutions present risk if they are unable to provide ready access to OCC's funds; FMUs present risk if they do not perform as expected under agreements with OCC; Exchanges present risk if inaccurate trade information is sent to OCC for processing; and vendors present risk as OCC outsources certain critical activities, such as gathering pricing data, to vendors. OCC manages these risks by scrutinizing the Third-Party before it can be on-boarded, monitoring the Third-Party throughout its relationship with OCC and carefully off-boarding the Third-Party should the relationship end. This organized and diligent approach to managing the risks associated with Third-Parties, promotes the prompt and accurate clearance and settlement of securities transactions by providing for the

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ Id.

management of the risks associated Third-Party relationships. By identifying the risks associated with Third-Party relationships throughout their lifecycle in accordance with the TPRMF, OCC would aim to avoid or manage these risks in order to continue providing prompt and accurate clearance and settlement services.

Additionally, OCC's TPRMF provides for the safeguarding of securities and funds in the custody or control of OCC or for which it is responsible by detailing the program OCC uses to manage its relationships with Third-Parties and more specifically, Financial Institutions and FMUs. The TPRMF would outline the process OCC would use to manage the risks associated with Financial Institutions and FMUs. Financial Institutions and FMUs present settlement risk to OCC if they do not perform within expected settlement time frames. In addition, Financial Institutions and FMUs present custodial risk to OCC if they are unable to provide ready access to OCC's funds in their custody. Furthermore, Financial Institutions and FMUs present risk to OCC if they are unable to promptly recover from a business continuity or disaster recovery event in order to perform services for OCC. By following the risk management process proposed in the TPRMF, OCC believes it would identify the risks associated with Financial Institutions and FMUs and use this information to make decisions about whether to begin a relationship with the Third-Party and whether to maintain the on-going relationship.

OCC believes following the process contained in the proposed TPRMF will contribute to the safeguarding of securities and funds in its custody or control or for which OCC is responsible by documenting the process OCC aims to consistently follow in order to identify, measure, monitor and manage the risks associated with Third-Parties.

Rule 17Ad-22(e)(3)¹⁸ requires, in part, that a covered clearing agency “establish, implement, maintain and enforce written policies and procedures reasonably designed to...[m]aintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which...[i]ncludes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually.” OCC believes that the proposed rule change is also consistent with Rule 17Ad-22(e)(3)¹⁹ because the proposed TPRMF would provide an overview of OCC’s approach to Third-Party risk management. The proposed TPRMF would describe how OCC monitors the risks that arise in or are borne by OCC through a variety of risk assessment, risk reporting, evaluation and internal control management activities, consistent with the requirements of Rule 17Ad-22(e)(3).²⁰ Additionally, OCC believes that retiring the CCRMP in favor of the proposed TPRMF, which includes a more thorough description of the OCC Third-Party risk management lifecycle approach across entity types, will provide a more comprehensive, clear and transparent presentation of OCC’s Third-Party risk management program. Currently, OCC’s approach to Third-Party risk management for Clearing Members, Financial Institutions and FMUs is included the CCRMP, while OCC’s approach to Third-Party risk management for Exchanges and Vendors is currently

¹⁸ 17 CFR 240.17Ad-22(e)(3).

¹⁹ Id.

²⁰ Id.

contained in policies and procedures that are not filed as rules. OCC believes that consolidating its approach to Third-Party risk management into one public document, will provide for greater consistency and a single source for information related to OCC's approach to the management of risks presented by Third-Parties. Additionally, OCC believes clarity and consistency will be gained by maintaining certain procedural information previously redundantly contained in the CCRMP and OCC's procedures only in OCC's procedures, rather than redundantly in the TPRMF. OCC believes resolving these redundancies will avoid potential confusion that could be created by any inconsistency between the TPRMF and OCC's procedures. Finally, OCC believes that making the proposed TPRMF publicly available will provide for greater transparency into OCC's policy to identify, measure, monitor, and manage risks related to Third-Party relationships.

Finally, OCC believes the proposed corresponding changes to the Risk Management Framework Policy, Liquidity Risk Management Framework, Margin Policy, and Collateral Risk Management Policy contribute to the maintenance required related to these policies as OCC aims to continue to maintain a sound risk management framework. While these edits do not change the substance or meaning of the Risk Management Framework Policy, Liquidity Risk Management Framework, Margin Policy, and Collateral Risk Management Policy, OCC believes accurate references within its policies and procedures support the maintenance of its risk management framework.

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 Act²¹ 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 Act. OCC does not believe that the proposed rule changes would impact or impose any burden on competition. The proposed rule change clearly and transparently presents the framework OCC uses to identify, monitor and manage its risks related to Third-Parties in the TPRMF. In addition, by retiring the CCRMP, the TPRMF consolidates information related to Third-Parties in one document for ease of access by interested parties. In addition, OCC plans to make this document publicly available on its website, thereby providing additional transparency and equal availability to all market participants. While the proposed rule change would enhance OCC's framework of risk management documentation, these updates do not affect Clearing Members' access to OCC's services or impose any direct burdens on Clearing Members. Accordingly, the proposed rule change would not unfairly inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another user.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the 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 were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

²¹ 15 U.S.C. 78q-1(b)(3)(I).

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 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-2020-014 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-2020-014. 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-2020-014 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²²

J. Matthew DeLesDernier
Assistant Secretary

²² 17 CFR 200.30-3(a)(12).