Mr. Dale Michaels
Executive Vice President of Financial Risk Management
The Options Clearing Corporation
125 S. Franklin St. Ste 1200
Chicago, IL 60606

By Electronic Mail

September 10, 2018

Re: Cap on Loss Mutualization from Partial Tear-Up

Dear Mr. Michaels,

Following on from FIA's letter to the Securities and Exchanges Commission on January 16, 2018 in relation to OCC's proposals for "Enhanced and New Tools for Recovery Scenarios" and OCC's response on July 9, 2018, FIA welcomes the further engagement from OCC on the use of Partial Tear-Ups as a further tool beyond Clearing Fund Assessments.

FIA welcomes OCC's proposal for an introduction of a 200% cap on Clearing Fund Assessments and Replenishments over a rolling 15-day cooling off period. However, as you know, in our January 16, 2018 letter to the SEC, FIA opposed OCC's proposal to allow a discretionary special charge through Rule 1111(g). As you know, Rule 1111(g) allows for the OCC Board to levy a special charge against remaining non-defaulting Clearing Members for the purpose of re-allocating the losses, costs and fees imposed upon non-defaulting Clearing Members and their customers resulting from a Partial Tear-Up, to the extent such losses, costs and fees can be reasonably determined. We recognize OCC's desire to apply the Partial-Tear Up tool in an equitable and reasonable manner with the hope of not imposing any haircuts on clearing members. However, we note that the amount which an OCC clearing member may be exposed to, through the mutualization of any losses arising from the application of Partial-Tear Up on a particular default or across multiple defaults results in a potentially unlimited and ex ante unknowable liability for members. From both a commercial and risk management perspective, this level of exposure imposed on clearing members is unreasonable.

FIA strongly urges OCC to introduce a financial cap, (calculated by reference to Clearing Fund required contributions), on losses that may be borne by clearing members through the use of Partial Tear-Ups as per Rule 1111 (g) with respect to all the defaults that might occur during the proposed 15-day cooling-off period . Such a cap would remove the possibility of an unlimited liability for defaults that might occur in the relevant time period; removing this possibility would both improve the ability of members to trade and risk manage on OCC and would also give confidence to clearing members as to the use of loss allocation powers by OCC management. We note that other central counterparties such as CME and Eurex apply a cap on all loss distribution across a given time period and are able to comply with “Cover2” based stressed scenario testing. We would recommend a monetary cap of 100% for the levies that could be made by the Board under the rule 1111 (g) for the defaults that might happen during the proposed 15-day cooling-off period.

We appreciate OCC's consideration of these comments. If OCC has any questions regarding the matters discussed herein, please contact Jacqueline Mesa, Senior Vice President of Global Policy, at +1.202.466.5460 or jmesa@fia.org.

Sincerely,

Jacqueline H. Mesa
Senior Vice President of Global Policy