

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100009; File No. SR-OCC-2024-001)

April 22, 2024

Self-Regulatory Organizations; Options Clearing Corporation; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change by The Options Clearing Corporation Concerning Its Process for Adjusting Certain Parameters in Its Proprietary System for Calculating Margin Requirements During Periods When the Products It Clears and the Markets It Serves Experience High Volatility

I. Introduction

On January 10, 2024, the Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-OCC-2024-001 pursuant to Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”)¹ and Rule 19b-4² thereunder to codify OCC’s process for adjusting certain parameters in its proprietary system for calculating margin requirements during periods when the products OCC clears and the markets it serves experience high volatility.³ The proposed rule change was published for public comment in the *Federal Register* on January 25, 2024.⁴ The Commission has received comments regarding the proposed rule change.⁵

On February 23, 2024, pursuant to Section 19(b)(2) of the Exchange Act,⁶ the Commission designated a longer period within which to approve, disapprove, or institute

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Notice of Filing *infra* note 4, at 89 FR 5062.

⁴ Securities Exchange Act Release No. 99393 (Jan. 19, 2024), 89 FR 5062 (Jan. 25, 2024) (File No. SR-OCC-2024-001) (“Notice of Filing”).

⁵ Comments on the proposed rule change are available at <https://www.sec.gov/comments/sr-occ-2024-001/srocc2024001.htm>.

⁶ 15 U.S.C. 78s(b)(2).

proceedings to determine whether to approve or disapprove the proposed rule change.⁷ This order institutes proceedings, pursuant to Section 19(b)(2)(B) of the Exchange Act,⁸ to determine whether to approve or disapprove the proposed rule change (hereinafter defined as “Proposed Rule Change”).

II. Summary of the Proposed Rule Change

OCC is a central counterparty (“CCP”), which means that as part of its function as a clearing agency, it interposes itself as the buyer to every seller and the seller to every buyer for financial transactions. As the CCP for the listed options markets and for certain futures in the United States, OCC is exposed to the risk that one or more of its Clearing Members may fail to make a payment or to deliver securities. OCC addresses such risk exposure, in part, by requiring its members to provide collateral, including margin collateral. Margin is the collateral that CCPs collect to cover potential changes in a member’s positions over a set period of time. Typically, margin is designed to cover such exposures during normal market conditions, which means that margin collateral should be sufficient to cover exposures at least 99 out of 100 days.

OCC’s methodology for calculating margin collateral is called the System for Theoretical Analysis and Numerical Simulations (“STANS”). The STANS Methodology Description is a single document describing OCC’s system for calculating daily and intra-day margin requirements for its Clearing Members.⁹ The STANS Methodology Description briefly discusses margin methodology parameter controls that OCC uses

⁷ Securities Exchange Act Release No. 99594 (Feb. 23, 2024), 89 FR 14909 (Feb. 29, 2024) (File No. SR-OCC-2024-001).

⁸ 15 U.S.C. 78s(b)(2)(B).

⁹ See Securities Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (File No. SR-OCC-2020-016) (“STANS Methodology Approval”).

during periods of high volatility.¹⁰ The STANS Methodology Description does not, however, describe OCC's process for implementing, changing, and terminating the high-volatility parameter controls. As such, OCC is filing the Proposed Rule Change to codify and describe this process. More specifically, OCC proposes to amend its existing Margin Policy to include material details regarding its high-volatility parameter control setting process. Although the Proposed Rule Change would amend OCC's Margin Policy, the proposal does not significantly change OCC's existing high-volatility parameter control setting practices.

Proposed additions to the Margin Policy regarding OCC's high-volatility control setting process include the following: (1) setting and reviewing regular and high-volatility control settings; (2) monitoring the volatility of products being cleared and markets served, and establishing thresholds to escalate the results of such monitoring to senior decisionmakers; and (3) internal governance for implementing and terminating high-volatility control settings.

¹⁰ See Securities Exchange Act Release No. 90763 (Dec. 21, 2020), 85 FR 85788, 85793 (Dec. 29, 2020) (File No. SR-OCC-2020-016) ("The STANS Methodology Description would also describe the controls that may be placed on the GJR-GARCH parameters after their initial calibration. GARCH volatility forecasting models can be very reactive in certain market environments. As a result, OCC may implement parameter controls for risk factors and classes of risk factors, which are subject to periodic review and approval by the [Model Risk Working Group].").

III. Proceedings to Determine Whether to Approve or Disapprove the Proposed Rule Change and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Exchange Act¹¹ to determine whether the Proposed Rule Change should be approved or disapproved. Institution of proceedings is appropriate at this time in view of the legal and policy issues raised by the Proposed Rule Change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, the Commission seeks and encourages interested persons to comment on the Proposed Rule Change, providing the Commission with arguments to support the Commission's analysis as to whether to approve or disapprove the Proposed Rule Change.

Pursuant to Section 19(b)(2)(B) of the Exchange Act,¹² the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the Proposed Rule Change's consistency with Section 17A of the Exchange Act,¹³ and the rules thereunder, including the following provisions:

- Section 17A(b)(3)(F) of the Exchange Act,¹⁴ which requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions; and to assure the safeguarding of

¹¹ 15 U.S.C. 78s(b)(2)(B).

¹² *Id.*

¹³ 15 U.S.C. 78q-1.

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

securities and funds which are in the custody or control of the clearing agency or for which it is responsible;

- Rule 17Ad-22(e)(2) of the Exchange Act,¹⁵ which requires that a covered clearing agency provide for governance arrangements that, among other things, specify clear and direct lines of responsibility; and
- Rule 17Ad-22(e)(6) of the Exchange Act,¹⁶ which requires that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, among other things, (1) considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market,¹⁷ and (2) calculates sufficient margin to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.¹⁸

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the Proposed Rule Change. In particular, the Commission invites the written views of interested persons concerning whether the

¹⁵ 17 CFR 240.17Ad-22(e)(2).

¹⁶ 17 CFR 240.17Ad-22(e)(6).

¹⁷ 17 CFR 240.17Ad-22(e)(6)(i).

¹⁸ 17 CFR 240.17Ad-22(e)(6)(iii).

Proposed Rule Change is consistent with Section 17A(b)(3)(F),¹⁹ Rule 17Ad-22(e)(2),²⁰ and Rule 17Ad-22(e)(6)²¹ of the Exchange Act, or any other provision of the Exchange Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4(g) under the Exchange Act,²² any request for an opportunity to make an oral presentation.²³

Interested persons are invited to submit written data, views, and arguments regarding whether the Proposed Rule Change should be approved or disapproved by [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

The Commission asks that commenters address the sufficiency of OCC's statements in support of the Proposed Rule Change, which are set forth in the Notice of Filing,²⁴ in addition to any other comments they may wish to submit about the Proposed Rule Change.

Comments may be submitted by any of the following methods:

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

²⁰ 17 CFR 240.17Ad-22(e)(2).

²¹ 17 CFR 240.17Ad-22(e)(6).

²² 17 CFR 240.19b-4(g).

²³ Section 19(b)(2) of the Exchange Act grants to the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. *See* Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

²⁴ *See* Notice of Filing, *supra* note 4.

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-2024-001 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-2024-001. 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 (*<https://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 a.m. and 3 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>*.

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to File Number SR-OCC-2024-001 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

Sherry R. Haywood,

Assistant Secretary.

²⁵ 17 CFR 200.30-3(a)(31).