SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-105208; File No. SR-OCC-2026-003]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change by The Options Clearing Corporation Concerning Amendments to OCC's STANS Methodology Description to Enable OCC to Accept Binary Options for Clearing and Appropriately Manage the Risk Created by Binary Options.

April 10, 2026.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on April 8, 2026, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily 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 would amend OCC's System for Theoretical Analysis and Numerical Simulation ("STANS") Methodology Description to enable OCC to accept binary options for clearing and appropriately manage the risk created by binary options.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

OCC filed as Exhibit 5 to File No. SR-OCC-2026-003 the updated version the STANS Methodology Description. Material proposed to be added is marked by underlining and material proposed to be deleted is marked with strikethrough text. 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.[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.

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

OCC is the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission. OCC also clears certain stock loan and futures transactions. Recently, OCC Participant Exchanges have expressed interest in listing binary options for trading and OCC is proposing to accept binary options for clearing. A binary call option pays $1 when the underlying asset is at or above the strike at maturity and expires worthless otherwise. Likewise, A binary put option pays $1 when the underlying asset is below the strike at maturity and expires worthless otherwise. As an initial matter, OCC proposes to clear binary options on equity indexes. As such, OCC

[3] OCC's By-Laws and Rules can be found on OCC's public website: https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules.

presently intends to clear only binary options that are within the definition of a "security" as determined by the Commission.[4] All initially proposed binary options would be European-style. However, OCC expects additional products to be launched as exchanges expand their offerings, and additional exchanges begin to list binary options. Because OCC previously cleared binary options, OCC's rulebook still includes a chapter covering binary options that OCC believes is adequate to enable it to clear binary options.[5]

OCC, however, believes that certain changes are necessary to enable it to clear binary options to reflect changes in OCC's risk management since the last time that OCC cleared binary options. In its role as a clearing agency, OCC guarantees the performance of its Clearing Members for all transactions cleared by OCC by becoming the buyer to every seller and the seller to every buyer. OCC is therefore exposed to the credit risk arising from the activity of the Clearing Members. OCC manages these financial risks through financial safeguards, including the collection of margin collateral from Clearing Members designed to, among other things, address the market risk associated with a Clearing Member's positions during the period of time OCC has determined it would take to liquidate those positions.

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4 See, e.g., 15 U.S.C. 78c(a)(10) (defining "security" to include "any put, call, straddle, option or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof)"); 7 U.S.C. 2(a)(1)(C)(i)(I) (providing that the CFTC "shall have no jurisdiction to designate a board of trade as a contract market for any transaction whereby any party to such transaction acquires any put, call, or other option on one or more securities (as defined [by 15 U.S.C. 78c(a)(10)]), including any group or index of such securities, or any interest therein or based on the value thereof").

5 See OCC Rulebook Chapter XV.

To calculate margin requirements, OCC uses STANS, its proprietary risk management system.[6] The STANS methodology utilizes large-scale Monte Carlo simulations to forecast price and volatility movements in determining a Clearing Member's margin requirement.[7] STANS margin requirements are calculated at the portfolio level of Clearing Member accounts with positions in marginable securities and consists of an estimate of two primary components: a base component and a concentration/dependence stress test add-on component. The base component is an estimate of a 99% expected shortfall[8] over a two-day time horizon.

While OCC previously cleared binary options contracts, the STANS Methodology Description, which OCC filed as a rule in 2020, [9] does not currently include a mechanism for calculating margin requirements for binary options. OCC did not include treatment for binary options because no Participant Exchanges listed binary products at the time OCC filed a proposed rule change to establish the STANS Methodology Description.[10] Specifically, the STANS Methodology Description does not include a mechanism to calculate the price of binary options, which is a necessary pricer for calculating the base margin requirement for the products. OCC is therefore proposing to update its STANS

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6 See Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (File No. SR-OCC-2020-016). OCC makes its STANS Methodology description available to Clearing Members. An overview of the STANS methodology is on OCC's public website: https://www.theocc.com/Risk-Management/Margin-Methodology.

7 See OCC Rule 601.

8 The expected shortfall component is established as the estimated average of potential losses higher than the 99% value at risk threshold. The term "value at risk" or "VaR" refers to a statistical technique that, generally speaking, is used in risk management to measure the potential risk of loss for a given set of assets over a particular time horizon.

9 See Exchange Act Release No. 91079 (Feb. 8, 2021) 85 FR 85788 (Feb. 12, 2021) (SR-OCC-2020-016).

10 Id.at 85799.

Methodology Description to enable it to price and adequately calculate initial margin requirements for clearing member accounts that hold binary options positions.

OCC is proposing to price the binary options using the closed-form pricer under the Black-Scholes framework. Initially, OCC proposes to use the closed-form pricer with the forward price of the underlying asset and the implied volatility of the corresponding vanilla option to price a binary option. OCC will use an adjustment term to ensure that the resultant price of the binary option aligns with market price. The adjustment term captures the difference between the market price and the theoretical price using the implied volatility of the vanilla option. Furthermore, the adjustment term could be used to account for market prices for binary options potentially being out of the range of the closed-form pricer due to illiquidity or market frictions, particularly during the launch stage. OCC filed as Confidential Exhibit 3A to File No. SR-OCC-2026-003 its model whitepaper for the pricing of binary options.

For margin calculations, the vanilla option implied volatility scenarios will be used as proxy. As trading volume increases and liquidity improves after the launch stage, OCC will consider transitioning to use the closed-form pricer and bid/ask prices to derive the implied volatility of the binary options. After transition to the mature stage,[11] smoothing will be performed to construct the implied volatility surface, which will be

[11] For clarity, the transition from Launch Stage to Mature Stage will be managed separately for different binary options products. For a given product, the transition from Launch Stage to Mature Stage will be determined by the following considerations: (1) the trading activities of newly launched binary options, such as volume or number of contracts cleared at OCC; (2) the quality of market data of newly launched binary options, such as strike and maturity coverage, the range of bid-ask spreads, and price difference compared to the corresponding vertical spread formed by vanilla options; and (3) the outcomes (relative to the actual market data) from the proposed smoothing and pricing modeling approaches in the Mature Stage.

used to generate the corresponding implied volatility scenarios for the margin calculations. The adjustment term will be kept for any minor price adjustment to align with the market, if necessary. Furthermore, such transition from the launch stage to mature stage would be subject to review and approval by OCC's Model Risk Work Group ("MRWG")[12] following review of the transition by OCC's Model Risk Management ("MRM") business unit.[13]

In accordance with OCC's existing Model Risk Management (MRM) Policy,[14] OCC's independent MRM team validated the proposed approach for the launch stage and supported its use for binary options. MRM concluded that the proposal is consistent with the theories for replication of European binary options with vanilla options using a vertical spread. MRM further concluded that the additional adjustment term accounts for the implied volatility and market pricing differences, as different market participants may use different spreads. Because the primary risk factor for binary options is the underlying price movement, the validation tests performed by MRM show that the Black-Scholes based pricing model (together with adjustment term) will be effective at pricing the products, and generating the theoretical prices needed for margin calculations and stress testing.

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12 MRWG is a cross-functional group responsible for assisting OCC's management in overseeing OCC's model-related risk comprised of representatives from relevant OCC business units.

13 MRM is an independent team at OCC that is responsible for validating OCC's risk models and is not involved in developing or implementing the models.

14 See Exchange Act Release No. 97484 (May 11, 2023), 88 FR 31549, 31551 n.15 (May 17, 2023) (SR-OCC-2023-004) (pursuant to the Model Risk Working Group Procedure, the MRWG reviews and, if appropriate, approves all new Risk Methodologies, changes to Risk Methodologies, and proposals for decommissioning Risk Methodologies prior to submitting to the Management Committee for review and approval.).

1. Purpose

In order to enable OCC to clear and risk manage binary options, OCC is proposing a number of changes to the STANS Methodology Description. OCC is proposing to add binary options to the list of FLEX and Exotic Options included in section 1.2.3 of the STANS Methodology Description. Specifically, OCC will state that "[b]inary options are a European-style option contract that are paid out if settlement value of the underlier is equal to or exceeds the exercise price in case of a call option or is less than the exercise price, in case of a put option. The underliers of binary options can be indexes, futures, equities, etc." Similarly, in section 2.3.1 of the STANS Methodology Description, OCC proposes to include binary options in the list of products that are supported by the implied volatility smoothing algorithm.

OCC is also proposing the necessary steps to apply its smoothing algorithm to binary options in section 2.3.1.3.1.[15] Specifically, for smoothing using market quotes, OCC states it will find a set of prices that are closest to target prices and 1) are within the bid-ask constraints,[16] 2) satisfy monotonicity constraints,[17] and 3) maintains the put-call parity of binary options[18] . Further, OCC treats out-of-the-money (OTM) binary options with strikes in the wings (far from the current spot price), so that the smoothed prices decay toward zero, reflecting their low probability of payoff. Similarly, in section

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15 OCC is also proposing to add the word "vanilla" to the first paragraph of section 2.3.1.3.1 to further clarify which options are being described in that paragraph.

16 Prices within the bid-ask constraints refers to prices that are within the realistic trading range.

17 Monotonicity means that prices move in a logically consistent direction with the strike price.

18 For binary options, put-call parity means that the sum of the price of a binary call option and the price of a binary put option with the same expiry and strike is the present value of one dollar at expiration.

2.3.1.3.2, OCC proposes that for smoothing using last prices, OCC will find a set of prices that are closest to exchange prices and 1) satisfy monotonicity constraints and 2) maintains the put-call parity of binary options.

Finally, OCC is proposing to add section 2.3.5 titled "Binary Options." The section describes the pricing process for binary options. Specifically, OCC is proposing to price binary options using a classic Black-Scholes options pricing framework. OCC is also proposing to use an adjustment term to account for differences between the market prices of binary options and the theoretical prices.

2. Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A of the Exchange Act[19] and Rule 17ad-22(e)(6)[20] thereunder. Section 17A(b)(3)(F) of the Act[21] requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors. OCC's STANS model and the proposed changes to the STANS Methodology Description help ensure that OCC has sufficient financial resources to conduct prompt settlement of binary options contracts even in the event of a clearing member default. Similarly, OCC's changes will help protect investors from the impact of a default by their binary options counterparty. For these reasons, the proposed changes to OCC's rules are reasonably designed promote the prompt and accurate clearance and settlement of

19 15 U.S.C. 78q-1.

20 17 CFR 240.17ad-22(e)(6)

21 15 U.S.C. 78q-1(b)(3)(F).

securities transactions and to protect investors. in accordance with Section 17A(b)(3)(F) of the Act.[22]

Rule 17ad-22(e)(6)[23] requires OCC to 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, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[24] OCC is proposing to price binary options using a closed-form pricer under a Black-Scholes framework. OCC plans to adjust the theoretical price by an adjustment term to ensure that the resultant theoretical price of the binary option aligns with arbitrage-free market price that is within the range of bid and ask prices. Further, OCC's MRM team performed a validation of the proposed approach and concluded that the approach will be effective at pricing the products to mid-market, and generating the theoretical prices needed for margin calculations and stress testing. For those reasons, OCC believes that the proposal is consistent with Rule 17ad-22(e)(6).

(B) Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act[25] 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 will impose any burden on competition. The changes are designed to facilitate the clearing and

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22 Id.

23 17 CFR 240.17ad-22(e)(6).

24 17 CFR 240.17ad-22(e)(6).

25 15 U.S.C. 78q-1(b)(3)(I).

trading of binary options and will apply equally to all participants that trade binary options, not favoring any participant over any other participant. Further, because the proposed change applies only to binary options and there is no current open interest in binary options, there is no burden on competition resulting from changes to the margin charges for existing portfolios. Finally, OCC does not believe that the proposed rule change would unfairly inhibit access to OCC's services or disadvantage any particular participant in relationship to another participant.

(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.

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 selfregulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

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 (https://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include file number SR-OCC-2026-003 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-2026-003. 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 such filing 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-2026-003 and should be submitted on or before [INSERT DATE 21 DAYS AFTER PUBLICATION IN THE *FEDERAL REGISTER*].

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

Sherry R. Haywood,

Assistant Secretary.

[26] 17 CFR 200.30-3(a)(12).