

# SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-105537; File No. SR-OCC-2026-003]

## **Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving 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**

May 21, 2026.

### **I. INTRODUCTION**

On April 8, 2026, the Options Clearing Corporation (“OCC”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to 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 (hereinafter “Proposed Rule Change”). The Proposed Rule Change was published for comment in the *Federal Register* on April 15, 2026.<sup>3</sup> For the reasons discussed below, the Commission is approving the Proposed Rule Change.

### **II. BACKGROUND**

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 seller to every buyer for

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Exchange Act Release No. 105208 (Apr. 10, 2026), 91 FR 20192 (Apr. 15, 2026) (File No. SR-OCC-2026-003) (“Notice”). The Commission received one comment expressing the general view that there is no interest in the product, but the comment raises no concerns or objections with the substance of the proposal. The comment on the Proposed Rule Change is *available at* <https://www.sec.gov/rules-regulations/public-comments/sr-occ-2026-003>.

certain financial transactions. As the CCP for the listed options markets in the United States,<sup>4</sup> as well as for certain futures and stock loans, OCC is exposed to various risks arising from providing clearance and settlement services to its Clearing Members.<sup>5</sup> Because OCC is obligated to perform on the contracts it clears, one such risk that OCC is exposed to is credit risk, including the risk that OCC would not maintain sufficient financial resources to cover exposures if one of its Clearing Members defaults. OCC manages such credit risk, in part, through financial safeguards, including the collection of margin collateral.

OCC previously cleared binary options and maintains rules addressing such products.<sup>6</sup> However, OCC's margin methodology does not currently include a mechanism for calculating margin requirements for binary options. OCC states that its Participant Exchanges have expressed interest in listing binary options for trading and OCC is proposing to accept binary options for clearing.<sup>7</sup> OCC is now proposing changes to its margin methodology to support the clearing of European-style binary options.

To calculate margin requirements, OCC uses its STANS methodology.<sup>8</sup> The STANS Methodology Description does not currently include a mechanism to price binary options or to

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<sup>4</sup> OCC describes itself as “the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission.” *See* Notice, 91 FR at 20193.

<sup>5</sup> Capitalized terms used but not defined herein have the meanings specified in OCC's Rules and By-Laws, available at <https://www.theocc.com/company-information/documents-and-archives/by-laws-and-rules>.

<sup>6</sup> *See* OCC Rules Chapter XV, available at <https://www.theocc.com/company-information/documents-and-archives/by-laws-and-rules>.

<sup>7</sup> *See* Notice, 91 FR at 20193. OCC states that it proposes to clear binary options on equity indexes and, as such, it presently intends to clear only binary options that are within the definition of a “security.” OCC also states that all initially proposed binary options would be European-style. However, OCC states that it expects additional products to be launched as exchanges expand their offerings, and additional exchanges begin to list binary options. *See id.*

<sup>8</sup> The STANS methodology applies to large scale Monte Carlo simulations to forecast price and volatility movements and to determine Clearing Member margin requirements at the portfolio level. Margin requirements consist of an estimate of expected shortfall over a defined time horizon and include both a base component and a concentration and dependency stress test component.

generate the inputs necessary for margin calculations for such products because no Participant Exchanges listed binary products at the time OCC filed a proposed rule change to establish the STANS Methodology Description.<sup>9</sup> As a result, OCC is proposing to update its STANS Methodology Description to enable the pricing of binary options and the calculation of corresponding margin requirements. Specifically, OCC is proposing to price binary options under a Black Scholes framework.<sup>10</sup> The proposed approach utilizes the forward price of the underlying asset and the implied volatility of a corresponding vanilla option. OCC proposes to apply an adjustment term to align the theoretical price with observed market prices. The adjustment term could be used to account for price behavior resulting from illiquidity, such as for a given set of binary options at launch.

For margin calculations during the launch stage, implied volatility scenarios derived from corresponding vanilla options would be used as a proxy.<sup>11</sup> As trading volume increases and market data becomes more available, OCC will consider transitioning to using bid and ask prices to derive the implied volatility of binary options. OCC would also apply its smoothing algorithm to construct an implied volatility surface for use in margin calculations that conforms to

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<sup>9</sup> See Notice, 91 FR at 20193 (citing Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (File No. SR-OCC-2020-016)). The STANS Methodology Description includes the material aspects of OCC's risk-based margin system, the purpose of which is to enable an informed reader to understand OCC's modeling choices and the interconnectedness of STANS model components in producing OCC margin requirements. See Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410, 9410-11 (Feb. 12, 2021) (File No. SR-OCC-2020-016).

<sup>10</sup> Black-Scholes is a commonly accepted as a reasonable framework for pricing European options. See Hull John C., *Options, Futures, and Other Derivatives* 321 (9th ed., 2015) (stating that the importance of the model was recognized when Robert Merton and Myron Scholes were awarded the Nobel prize for economics).

<sup>11</sup> OCC's Model Risk Management function validated the proposed approach for the launch stage and supported its use for binary options. See Notice, 91 FR at 20194.

constraints related to bid and ask ranges,<sup>12</sup> monotonicity,<sup>13</sup> and put-call parity.<sup>14</sup> Additionally, OCC is proposing to treat far out-of-the-money binary options such that the smoothed prices decay toward zero, reflecting the low probability of payoff.

To effectuate the model changes, OCC proposes to amend the STANS Methodology Description to incorporate binary options and to support the clearing and risk management of such products. Specifically, OCC is proposing to include binary options in the list of FLEX and exotic options set forth in section 1.2.3 of the STANS Methodology Description. OCC is also proposing to define binary options as European-style option contracts that pay a fixed amount at expiration if the settlement value of the underlying is equal to or exceeds the exercise price in the case of a call option or is less than the exercise price in the case of a put option. The underliers for binary options may include indexes, futures, equities, and similar instruments. Further, OCC proposes to include binary options among the products supported by its implied volatility smoothing algorithm. Finally, OCC is proposing to add a new section 2.3.5, titled “Binary Options,” which describes the pricing process for binary options as described above.

### **III. DISCUSSION AND COMMISSION FINDINGS**

Section 19(b)(2)(C) of the Exchange Act requires 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 Exchange Act and the rules and regulations thereunder applicable to

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<sup>12</sup> Prices within the bid-ask constraints refers to prices that are within the realistic trading range. *See* Notice, 91 FR at 20194, n.16.

<sup>13</sup> Monotonicity means that prices move in a logically consistent direction with the strike price. *See* Notice, 91 FR at 20194, n.17.

<sup>14</sup> 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. *See* Notice, 91 FR at 20194, n.18.

the organization.<sup>15</sup> Under the Commission’s Rules of Practice, the “burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization [‘SRO’] that proposed the rule change.”<sup>16</sup>

After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to OCC. More specifically, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Exchange Act,<sup>17</sup> and Rule 17ad-22(e)(6)(i) thereunder, as described in detail below.<sup>18</sup>

*A. Consistency with Section 17A(b)(3)(F) of the Exchange Act*

Section 17A(b)(3)(F) of the Exchange Act<sup>19</sup> requires, among other things, that the rules of a clearing agency be designed 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. Based on the Commission’s review of the record, and for the reasons described below, the Proposed Rule Change is consistent with assuring the safeguarding of securities and funds which are in OCC’s custody or control or for which it is responsible.

As described above, the STANS methodology, as modified by the proposed changes to the STANS Methodology Description, would provide for the calculation of margin requirements for binary options contracts, including in scenarios involving a Clearing Member default. In particular, the proposed changes would incorporate characteristics of binary options into the

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<sup>15</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>16</sup> Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>18</sup> 17 CFR 240.17ad-22(e)(6)(i).

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

model and produce theoretical values used for margin calculations. Absent the proposed changes, OCC's margin methodology may not fully reflect the particular risk characteristics associated with binary options contracts. As a result, OCC may not collect sufficient margin collateral to address the risks posed by such positions in the event of a Clearing Member default.

By incorporating characteristics of binary options into OCC's margin methodology, the proposed changes would support the calculation of margin requirements that more accurately reflect the risks associated with binary options products. More accurate margin calculations would improve OCC's ability to assess and manage its credit exposures associated with binary options positions, which increases the likelihood that OCC would collect sufficient margin collateral. Increasing the likelihood that OCC collects sufficient margin collateral to address risks associated with binary options positions would, in turn, help reduce the likelihood that OCC would need to utilize Clearing Fund contributions of non-defaulting Clearing Members to cover losses associated with such a default.

Accordingly, the proposed changes would help assure the safeguarding of securities and funds which are in OCC's custody or control or for which it is responsible. Therefore, the Commission finds that the Proposed Rule Change is consistent with the requirements of Section 17A(b)(3)(F) of the Exchange Act.<sup>20</sup>

*B. Consistency with Rule 17ad-22(e)(6)(i) under the Exchange Act*

Rule 17ad-22(e)(6)(i) under the Exchange Act 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 participants by establishing a risk-based margin system that, at a minimum

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<sup>20</sup> 15 U.S.C. 78q-1(b)(3)(F).

considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>21</sup>

As described above, OCC proposes to update its STANS Methodology Description to support the clearing of European-style binary options, which OCC does not currently address in its margin methodology. OCC's initial adoption of the STANS Methodology Description was consistent with Rule 17ad-22(e)(6)(i) under the Exchange Act, in part, because it covered various components of STANS designed to address the particular attributes of the products that OCC clears, including European-style options, and described OCC's process for addressing the entrance of new products, such as identifying and separately processing risk factors with incomplete data sets that lack sufficient data.<sup>22</sup>

The additions to the STANS Methodology Description are clearly designed to consider the risks and attributes of binary options products as well as the market for such products. With regard to the product itself, OCC's proposal to operate within a Black-Scholes options pricing framework initially using the forward price of the underlying asset and the implied volatility of the corresponding vanilla option to price a binary option is consistent with the consideration of the particular attributes of the binary options products.<sup>23</sup> With regard to potential market issues such as illiquidity at the launch of a given binary option, the proposed methodology includes an adjustment term that is designed to capture differences between market prices and theoretical

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<sup>21</sup> 17 CFR 240.17ad-22(e)(6)(i).

<sup>22</sup> *See* Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410, 9413 (Feb. 12, 2021) (File No. SR-OCC-2020-016).

<sup>23</sup> The price of the underlying security and implied volatility are notable risk factors utilized in STANS. *See* Exchange Act Release No. 95319 (July 19, 2022), 87 FR 44167, 44168 (July 25, 2022) (File No. SR-OCC-2022-001) (stating that the majority of risk factors utilized in STANS are the returns on individual equity securities; however, a number of other risk factors may be considered, including, among other things, returns on implied volatility).

prices and ensure that the price of the binary option aligns with market price. Further, OCC will apply its smoothing algorithm, using market quotes, to ensure that prices conform to specific constraints related to bid-ask spreads, monotonicity, and put-call parity.

Accordingly, the Commission finds that the Proposed Rule Change is consistent with the requirements of Rule 17ad-22(e)(6)(i).<sup>24</sup>

#### **IV. CONCLUSION**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Exchange Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Exchange Act,<sup>25</sup> and Rule 17ad-22(e)(6)(i) thereunder.<sup>26</sup>

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Exchange Act<sup>27</sup> that the proposed rule change (SR-OCC-2026-003) be, and hereby is, approved.<sup>28</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>29</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>24</sup> 17 CFR 240.17ad-22(e)(6)(i).

<sup>25</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>26</sup> 17 CFR 240.17ad-22(e)(6)(i).

<sup>27</sup> 15 U.S.C. 78s(b)(2).

<sup>28</sup> In approving the Proposed Rule Change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>29</sup> 17 CFR 200.30-3(a)(12).