



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-99169; File No. SR-OCC-2023-008]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Concerning Amendments to The Options Clearing Corporation’s Collateral Risk Management Policy and Margin Policy

December 14, 2023.

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 December 4, 2023, The Options Clearing Corporation (“OCC” or “Corporation”) 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 primarily by OCC. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(i)³ of the Act and Rule 19b-4(f)(1)⁴ thereunder, such that the proposed rule change was immediately effective upon filing with the Commission. 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 Collateral Risk Management Policy (“CRM Policy”) and Margin Policy (collectively, “OCC Policies”). The proposed changes are designed to update the OCC Policies to better align the descriptions therein

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

with OCC's current practices, delete extraneous information, and make other non-substantive clarifying, conforming and administrative changes.

The proposed changes to the OCC Policies are included in confidential Exhibits 5A and 5B to File No. SR-OCC-2023-008. Material proposed to be added to the OCC Policies as currently in effect is underlined and material proposed to be deleted is marked in strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.⁵

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

As the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission ("listed options"), OCC is exposed to certain risks, including credit risk arising from its relationships with the Clearing Members for which OCC becomes the buyer to every seller and the seller to every buyer with respect to listed options. In order to manage counterparty credit risk and mitigate related systemic risks, OCC requires Clearing Members to collateralize financial obligations that result from maintaining options, futures and stock loan positions at OCC.

OCC maintains policies filed with the Commission as OCC rules that are designed to address such credit risk, including the CRM Policy and the Margin Policy.

⁵ 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>.

The CRM Policy identifies OCC's approach for managing the risks associated with accepting collateral deposits.⁶ Specifically, the CRM Policy sets the governance processes for establishing and maintaining standards used to determine acceptable forms of collateral, as well as the methodology for establishing the valuation practices, including applicable haircuts and concentration limits to effectively manage OCC's credit exposure.⁷ In addition, the CRM Policy describes the requirements for periodically evaluating the forms of accepted collateral and the ongoing adequacy of the valuation processes.⁸ The Margin Policy describes OCC's approach to managing credit exposure presented by its Clearing Members by requiring Clearing Members to deposit margin, which OCC would use to cover losses if a member defaults.⁹ The Margin Policy addresses positions considered for margin calculations, cross-margining, treatment of collateral included in margin calculations, key margin assumptions, OCC's margin methodologies, protocols for margin calls and adjustments, and margin monitoring, including through daily backtesting and model validation that OCC conducts to assess the performance of its margin methodologies.¹⁰

Consistent with regulatory obligations,¹¹ OCC and its Board reviews these risk management policies at least annually. Through these annual reviews, OCC has identified proposed revisions intended to revise certain descriptions to better reflect current practices, remove extraneous information and make other non-substantive, clarifying and administrative changes to the text of those policies. These changes are

⁶ See Exchange Act Release No. 82311 (Dec. 13, 2017), 82 FR 60252, 60252-53 (Dec. 19, 2017) (SR-OCC-2017-008).

⁷ See *id.*

⁸ See *id.* at 60253.

⁹ See Exchange Act Release No. 82658 (Feb. 7, 2018), 83 FR 6646, 6646 (Feb. 14, 2018) (SR-OCC-2017-007).

¹⁰ See *id.* at 6647.

¹¹ See 17 CFR 240.17Ad-22(e)(3)(i) (requiring, among other things, that a covered clearing agency subject its risk management policies, procedures and systems to review on a specified periodic basis and approval by the board of directors annually).

designed to enhance the clarity of OCC's internal governance arrangements and are not expected to have any impact on OCC's Clearing Members or other market participants.

(1) Purpose

OCC proposes to make the following changes to the CRM Policy and Margin Policy to better reflect current practices, remove extraneous information and make other non-substantive, clarifying and administrative changes to the text of those policies.

1. CRM Policy

OCC proposes to add a statement in the Purpose section that the CRM Policy sets forth processes to establish and maintain standards used to “maintain a collateral system that is well-designed and operationally flexible.” OCC's Collateral Management system meets this standard today and no changes to its operations would be required. The proposed revision would merely clarify that OCC's collateral system conforms to the standard established at Principle 5, Key Consideration 6 of the Principles for Financial Market Infrastructures.¹²

OCC proposes to insert an Applicability and Scope section that, consistent with other recently filed policies,¹³ would identify the primary OCC business units that support OCC's approach to managing the risks associated with accepting collateral deposits, including but not limited to Pricing and Margins (“P&M”), Collateral Services, and Quantitative Risk Management (“QRM”).

OCC proposes to retitle the Policy Detail section as the Policy Content section to conform with current OCC titling conventions as reflected in other policies. OCC also

¹² See Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions (“CPSS-IOSCO”), Principles for financial market infrastructures (Apr. 16, 2012) (stating that “[a]n FMI should use a collateral management system that is well-designed and operationally flexible”), available at <http://www.bis.org/publ/cpss101a.pdf>. In 2014, the CPSS became the Committee on Payments and Market Infrastructures (“CPMI”).

¹³ See Exchange Act Release No. 93916 (Jan. 6, 2022), 87 FR 1819, 1820 (Jan. 12, 2022) (SR-OCC-2021-014) (discussing the applicability and scope of OCC's Cash and Investment Management Policy).

proposes to amend a statement therein that Clearing Members must maintain sufficient collateral at OCC to meet their margin and clearing fund obligations “at all times.” OCC proposes to remove this phrase that could imply that a Clearing Member’s failure to maintain sufficient collateral would constitute a violation of OCC’s Rules (i.e., if the value of the collateral on deposit fell below the Clearing Member’s margin requirement). Such a reading would be inconsistent with OCC operations and the implicit intent behind OCC Rules 601 and 1001, which establish OCC’s ability to call for margin and Clearing Fund collateral as needed. The revised statement would better describe OCC’s long-standing requirements and practices.

OCC proposes to remove lists of acceptable margin and Clearing Fund collateral types from the Margin and Clearing Fund sections. OCC Rules 604 and 610 describe asset types that OCC accepts as margin collateral and OCC Rule 1002 describes Clearing Fund collateral. Because the list of acceptable collateral to be removed is appropriately reflected in the Rulebook, it need not be duplicated in the CRM Policy. Similarly, OCC proposes to delete a statement regarding the current composition of sovereign debt accepted by OCC in the Sovereign Credit Risk section. This text provides background information regarding the current composition of OCC’s sovereign debt collateral and maintaining this description in the CRM Policy text raises the risk of inaccuracy should OCC’s collateral composition change over time. The statement does not establish a stated policy, practice or interpretation of OCC regarding the forms of Government securities acceptable to OCC, which are established by OCC Rules 604 and 1002.

OCC proposes to restate Financial Risk Management’s (“FRM”) stated obligation in the Market Risk section to value collateral “continuously,” to “throughout regular market trading hours.” The modifier “continuously” could imply that FRM is required to value collateral on a 24/7 basis. OCC’s policies and procedures are designed to set and

enforce appropriately conservative haircuts for the collateral it accepts,¹⁴ but OCC does not believe this would require it to adhere to a standard of continuous and ongoing revaluation of collateral. Accordingly, OCC proposes these revisions to more clearly reflect its long-standing practices. Similarly, OCC proposes to restate the obligation in the Valuations section from requiring P&M to perform its collateral valuation processes “on a continuous basis” to “during regular market trading hours.” In each case the revised statements are fairly and reasonably implied by OCC’s rules.¹⁵

OCC proposes to amend the description of its approach to concentration risk in the Concentration Risk section. The current description focuses on OCC’s measures to mitigate concentration risk in relatively limited scenarios, including where appropriate to limit the aggregation or concentration of large positions in a single security or mitigate price dislocation when selling a large position into a thin market. This description does not address other relevant instances where OCC could face or seek to mitigate concentration risk. As such, OCC proposes to more broadly describe its approach to mitigating concentration risk, which consists of restrictions for certain assets intended to allow OCC to liquidate collateral quickly without adverse price effects. The proposed revisions would more fully describe OCC’s approach to mitigating concentration risk without altering the substance or requirements of the CRM Policy as they relate to OCC’s core risk management activities.

The Systems and Processing section describes OCC’s collateral management system as highly automated yet flexible enough to accept a variety of collateral types. While this description of the system’s flexibility is accurate, it does not establish a rule, standard or interpretation with respect to OCC’s operation of the system. OCC proposes

¹⁴ See 17 CFR 240.17Ad-22(e)(5).

¹⁵ For example, the CRM Policy explains that OCC’s approach to valuation includes that the maximum period between collateral revaluations is at least daily. See Exchange Act Release No. 82009 (Nov. 3, 2017), 82 FR 52079, 52080-81 (Nov. 9, 2017) (SR-OCC-2017-008).

to replace the extraneous discussion of flexibility with a statement indicating that the system supports the maintenance and processing of various asset types, which more objectively conveys similar information. This section further provides that the collateral management system maintains the same performance, efficiency and effectiveness for each collateral type OCC accepts. OCC proposes to delete this provision because different processing methods for collateral types and associated timelines could render that statement inaccurate and the discussion of the collateral system's capabilities likewise does not establish a stated policy, practice or interpretation and should not be considered a rule per se. The proposed revisions would clarify the description of OCC's collateral management system in accordance with current OCC operations.

In the Reconciliation section, OCC intends to clarify that the information it uses in the daily balancing of collateral against activity and inventory reports is not limited to end-of-day reports provided by custody banks and depositories. Accordingly, OCC proposes to remove the "end-of-day" modifier and include OCC's internal systems within the description of potential sources of information and reports used for daily balancing activity. These revisions are intended to better reflect the sources of information OCC uses when conducting its daily balancing activity.

The Reconciliation section also provides exceptions to the daily monitoring requirement concerning certain collateral for which OCC's daily balancing activities previously were impractical. OCC believes these reviews and associated exceptions to the daily monitoring requirement are no longer necessary. Specifically, OCC would delete reference to the monthly reviews of collateral deposited pursuant to letters of credit or depository receipts and security agreements. With respect to letters of credit, the monthly reviews date to when documentation for such collateral was maintained in physical files. Currently, OCC verifies and electronically retains documentation for letters of credit on the date a letter of credit is processed consistent with the CRM

Policy's daily monitoring requirement, making the monthly review exception for letters of credit redundant and unnecessary. With respect to depository receipts and security agreements, the processing of Canadian Government securities, to which those monthly reviews apply, no longer rely on such documentation. In any event, Collateral Services conducts a daily inventory reconciliation of Canadian Government securities, which is reasonably and fairly implied by the generally applicable daily balancing requirement under the Reconciliation section, discussed above. Accordingly, OCC proposes to delete the reference to these monthly reviews from the CRM Policy because the monthly reviews no longer serve any practical purpose.

Similarly, OCC proposes to remove the CRM Policy's discussion of the requirement that Collateral Services regularly review escrow deposit banks to ensure acceptable and sufficient collateral is maintained. This review dates to a time when OCC did not have daily visibility into the actual collateral holdings held at the banks as supporting collateral.¹⁶ OCC would review a collateral listing supplied by the banks on a quarterly basis. Currently, all non-cash collateral is pledged to OCC through the Depository Trust Company ("DTC"), which not only provides OCC with visibility into the holdings but allows OCC to validate and value the collateral in an automated fashion prior to giving credit to such deposits.¹⁷ OCC reconciles the non-cash inventory daily and performs a daily audit of any cash collateral maintained at the escrow banks against what OCC maintains in its systems. These daily reconciliation activities are reasonably and fairly implied by the generally applicable daily balancing requirement under the Reconciliation section, discussed above.

¹⁶ See Exchange Act Release No. 79094 (Oct. 13, 2016), 81 FR 72129 (Oct. 19, 2016) (SR-OCC-2016-009) (approving changes to OCC's escrow deposit program).

¹⁷ Id. at 72129.

The Reconciliation section also requires OCC's Collateral Services team to "immediately address" any discrepancies identified during its activity reviews and inventory balancing. How Collateral Services addresses such discrepancies is addressed in procedures maintained by Collateral Services. OCC proposes to revise the text of this section to recognize that Collateral Services maintains procedures to satisfy this obligation.

OCC proposes to remove the entirety of the Margin Offset section, which consists of a description of margin collateral assets that are permitted to directly offset cleared positions (*i.e.*, deposits in lieu of margin) and a statement that cleared positions can be fully covered by such assets and thus excluded from margin calculations. OCC Rules 610 and 601(f)(2) authorize such offsets and describe the collateral assets permitted to be offset. As such, OCC believes it is unnecessary to duplicate this information in the CRM Policy.

The Governance and Annual Review section provides that a recommendation to add a new collateral type for margin or clearing fund purposes must address whether the collateral should be subject to a haircut or modeled within the System for Theoretical Analysis and Numerical Simulation ("STANS"). OCC proposes to specify in the CRM Policy that when the collateral type will be subject to haircuts, such haircuts will be expressed as percentages, as is consistent with current OCC practice.

In addition, OCC proposes to make clarifying, conforming and other non-substantive changes to the CRM Policy. The proposed changes discussed below would not substantively alter the meaning of the revised provisions or the substance or requirements of the CRM Policy as they relate to OCC's core clearance, settlement, and risk management activities. The following conforming revisions are intended to align the text of the CRM Policy with existing provisions of the Rulebook, By-Laws or other

documents, as applicable, and to update the titles of documents referenced in the CRM Policy:

- In the section to be renamed as Policy Content, and again in the subsequent Margin section, OCC proposes to insert references to Rule 610. Rule 610 establishes the rules around deposits in lieu of margin, which are a form of margin collateral. These changes would ensure alignment between the text of the CRM Policy and the Rulebook with respect to acceptable forms of margin collateral. In the amended Policy Content section, OCC also proposes to add that Clearing Fund collateral can be used to meet OCC liquidity needs for settlement. This change is also consistent with existing practice, as codified in OCC Rule 1006(f).
- OCC would revise two references to chapter 2 of the “STANS Margin Methodology document” to instead refer to the “STANS Methodology Description,” which replaced the legacy STANS Margin Methodology as the description of the STANS Methodology filed with the Commission.¹⁸

The following clarifying revisions are intended to restate existing provisions for improved clarity and accuracy:

- In the Purpose section, OCC proposes to replace collateral that “OCC has determined exhibits low credit, market and liquidity risks” with collateral that “is of low risk based on credit, market, and liquidity characteristics.” These revisions would not alter currently existing standards or practices but more clearly state what OCC’s definition of high quality collateral is based on.
- In the Margin section, OCC proposes to replace “price” with “value” in reference to the liquidation of margin assets at a price that reasonably approximates the

¹⁸ See Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (SR-OCC-2020-016) (approving the establishment of the STANS Methodology Description).

value given to the asset as a collateral deposit, which would be consistent with the term “value” that is used later in the sentence.

- In the Risk Considerations section, OCC proposes to insert the word “collateral” after “margin” to align with the term “Clearing Fund collateral” used immediately thereafter. In light of this alignment, OCC also proposes to insert “or both” to make clear that the Credit and Liquidity Risk Working Group (“CLRWG”)¹⁹ determines which assets are considered acceptable for each category of collateral, or both categories, as applicable.
- In the Sovereign Credit Risk section, OCC proposes to delete “particular” as a qualifier preceding “foreign sovereign’s debt.” The qualifier is unnecessary as OCC reviews each form of collateral prior to accepting it as collateral, so the revision does not substantively alter the meaning of the provision.
- In the Valuations section, OCC proposes to restate how the haircut determination and review process informs OCC’s approach to addressing procyclicality. The current policy states that such process also “protects against potential pro-cyclical concerns” by considering stressed market conditions. OCC proposes to delete “potential” and instead state that the process “shall also protect against pro-cyclical concerns” by considering stressed market conditions. The revisions would not substantively alter existing processes but make more definitive OCC’s intent to address pro-cyclicity through its existing haircut determination and review process. OCC proposes to remove “in order” from the same sentence as it is a redundant statement of OCC’s purpose, which is adequately reflected in the statement.

¹⁹ CLRWG is a cross-functional group responsible for assisting OCC’s Management Committee in overseeing and governing OCC’s credit and liquidity risk management activities and currently consists of representatives from Financial Risk Management—including Credit Risk Management and Stress Testing and Liquidity Risk Management—Corporate Risk Management, Treasury, and Operations.

- The Haircuts section provides that changes to applicable haircut rates shall be made in accordance with applicable authority under Rule 604. OCC proposes to delete “applicable authority under” Rule 604 as it is redundant in the context of this sentence.
- The Collateral Re-hypothecation and Substitution section refers to “Clearing Fund securities.” OCC proposes to revise the reference to “Clearing Fund collateral” for greater consistency with the section header and discussion in the preceding sentence, which refers to rehypothecation of “margin collateral.”

Finally, OCC proposes to make typographical and administrative changes to the CRM Policy intended to correct spelling, capitalization, punctuation and grammar, remove unnecessary verbiage, and conform the CRM Policy’s format to OCC’s latest policy template.

2. Margin Policy

OCC proposes the following changes to the Margin Policy identified through its annual reviews of the policy.

In the Purpose section of the Margin Policy, OCC proposes to delete “assure performance” of Clearing Members as a stated purpose for collecting margin. The act of collecting margin recognizes that no counterparty’s performance can be fully assured. The proposed revisions would merely clarify the discussion in the Margin Policy without any impact on the substance or requirements of OCC’s margin collection practices or Clearing Member obligations.

OCC proposes to insert an Applicability and Scope section, which, similar to the change to the CRM Policy discussed above, would identify the primary OCC business units that support OCC’s approach to managing margin and credit exposure presented by its Clearing Members, including but not limited to P&M, Collateral Services, and QRM.

In the Net/Gross Margining Accounts section, OCC proposes to revise the discussion of net and gross margining to focus on OCC's calculation of margin rather than OCC's approach to liquidating positions in the event of a default. The current text provides that two approaches under applicable regulations to liquidating a Clearing Member's positions include the immediate liquidation of positions that are margined on a net omnibus basis and the porting of customer positions that are margined on a gross basis. OCC believes it would be more appropriate to frame this discussion in the Margin Policy in terms of margin calculation considerations rather than position liquidation considerations, which are covered in other OCC policies and procedures.²⁰ Accordingly, OCC proposes to restate this section in terms of two approaches under applicable regulations for calculating margin, which include margining positions on a net omnibus basis and margining positions on a gross individual customer basis. The proposed revision would more accurately reflect the nature of the applicable regulatory provision while more clearly stating OCC's approach to margin calculation in a manner that is consistent with its current operations and margin calculation processes. At the same time, OCC proposes to state in the Margin Policy that it calculates margin on a customer gross basis for select accounts, which facilitates the porting of futures Customer accounts in accordance with OCC's Rules or By-Laws. The gross margin calculation is consistent with OCC's current practice for customer segregated futures positions in accordance with U.S. Commodity Futures Trading Commission ("CFTC") Regulation 39.13(g)(8)(i)(A),²¹ which applies to OCC by virtue of its registration as a derivatives clearing organization ("DCO"). Lastly, OCC proposes to delete a statement from this section indicating that the methodology used to liquidate a customer account directly influences the manner in

²⁰ OCC's Default Management Policy outlines the steps that OCC may take in the event of a Clearing Member's suspension, including the close-out of positions. See Exchange Act Release No. 82310 (Dec. 13, 2017), 82 FR 60265 (Dec. 19, 2017) (SR-OCC-2017-010).

²¹ See 17 CFR 39.13(g)(8)(i)(A).

which OCC margins the account. Liquidation methodology is but one of numerous factors (e.g., position risk, concentration of positions, correlations and offsets, and regulatory standards) influencing the manner in which an account is margined. Each of the above revisions would be consistent with OCC's current operations and margin calculation processes.

In the same section, OCC proposes to revise how it describes its approach to liquidating and/or porting a suspended Clearing Member's accounts. The Margin Policy currently provides that OCC's primary approach with respect to the positions of a suspended Clearing Member shall be immediate liquidation of net omnibus positions and porting of futures customer positions margined on a gross basis. The Margin Policy further specifies that accounts utilizing a net margining approach shall be liquidated on a net omnibus basis either through market transactions or an auction format. As above, OCC proposes to reframe the discussion in the Margin Policy to focus on the calculation of margin rather than considerations around liquidating positions, by noting instead that the calculation of margin on a net basis is consistent with OCC's primary approach for liquidating a Clearing Member's positions. In light of this revised focus on margin calculation rather than liquidation, OCC proposes to delete the statement regarding how net margin accounts will be liquidated. The proposed changes are intended to clarify the relationship between OCC's margin calculation approach and its decisions to port or liquidate positions in a default scenario, in accordance with applicable regulations and OCC's existing Rules.²²

The same section provides that gross margining of accounts "shall permit" OCC to port individual customer accounts and associated margin to a solvent futures commission merchant ("FCM"). This text could be read to imply that gross margining

²² See OCC Rule 1106(c) (providing that OCC shall close open futures positions of a suspended Clearing Member in the most orderly manner practicable).

ensures that OCC will be able to port individual customer accounts and associated margin in all cases, which cannot be guaranteed in advance. Accordingly, OCC proposes to revise this statement to instead focus on the effect of gross margining on OCC's decision-making by clarifying that gross margining permits OCC to "identify" individual customer positions and margin deposits, which facilitates porting along with associated margin deposits. As provided in OCC Rule 1106 and implied by the proposed revision to this statement, and to further ensure that OCC retains an appropriate and necessary degree of flexibility to manage risk arising from a Clearing Member default, OCC further proposes to state that utilizing gross margining would not preclude OCC from liquidating those positions on a net basis. Each of these proposed revisions would align the discussion in the Margin Policy to be consistent with OCC's currently contemplated approach to porting considerations as reflected in the Rules, and other policies and procedures governing OCC's default management process, and would not alter the substance or requirements of the Margin Policy as they relate to OCC's core clearance, settlement, and risk management activities.

In the Segregated Futures Customer Gross Margining section, the Margin Policy provides that OCC margins customer segregated futures accounts on a gross margin basis to facilitate the porting of futures customers in the event of an FCM default. As noted above, the requirement to collect gross margin for customer futures accounts is established at CFTC Regulation 39.13(g)(8)(i)(A),²³ which applies to OCC by virtue of its registration as a DCO. This is a requirement that applies to OCC by operation of law and does not need to be restated in the Margin Policy.²⁴ Lastly, the statement could be

²³ 17 CFR 39.13(g)(8)(i)(A).

²⁴ Because this margin calculation requirement is codified in a regulation it would be potentially confusing to continue stating that OCC margins customer futures accounts on a gross basis "to facilitate the porting of customers." While this may be the intended outcome of the gross margin minimum requirement, it is more accurate that OCC collects the required amount primarily to meet its risk management obligations in accordance with applicable regulations.

interpreted to be contradictory to a later statement in the same section that OCC will require the larger of the gross or net margin requirement calculated for the account. For these reasons, OCC proposes to delete the statement in its entirety.

In the Stock Loan Positions section, OCC proposes to revise its discussion of add-on charges for stock loan positions to enhance clarity. The Margin Policy currently provides that OCC will include add-on margin charges as needed based on pricing and corporate action conventions. Because there are not different conventions to how corporate actions are applied to stock loan contracts, OCC proposes to instead provide that add-on margin charges will be included based on pricing conventions and corporate action entitlements of the applicable stock loan program. OCC would remove the phrase “as needed” from the current text since the relevant add-on margin charges are driven by the pricing conventions and cash entitlements of the program, making that phrase redundant in the context. The proposed revisions would update and clarify the description of OCC’s approach to add-on charges in the Margin Policy without impacting current OCC operations. In addition, OCC would change an “i.e.,” to “e.g.,” in the same section because the subsequent list of risk calculations is non-exhaustive.

In the Cross-Margin section, OCC proposes to expressly state that margin requirements for cross-margin accounts shall be calculated in accordance with OCC’s margin methodology, while taking into account any provisions of the applicable cross-margin agreement. The revised text would conform with what is reflected in OCC Rule 704(a), which provides that margin in respect of cross-margin accounts shall be determined by OCC in accordance with that rule and the relevant cross-margin agreement. In a footnote to the same section, OCC notes that the establishment, implementation, maintenance and review of cross-margin agreements is governed by the

rule-filed Third-Party Risk Management Framework²⁵ and a list of underlying procedures that support that Framework. OCC proposes to streamline this footnote by instead cross-referencing the “Third-Party Risk Management Framework and underlying procedures.” Reference to each of the underlying procedures was not intended to be a rule per se, and eliminating this information from the Margin Policy would encourage OCC staff to use OCC’s internal system of record to identify the procedures that are related to the specific purpose or function that they are performing instead of relying on a list that may be outdated or underinclusive.

In the Collateral section, the Margin Policy states that margin deposits are due on “the morning” following the trade date. OCC proposes to amend reference to the generally applicable deadline, which could vary in certain circumstances (e.g., with respect to trades that clear on dates preceding a weekend or a bank holiday or where OCC issues an intra-day margin call). The reference would be updated to the “morning of the business day” following the trade date, as provided by OCC Rule 601(a). The reference would be further updated to provide that with respect to intraday margin calls, margin deposits are due at such other time as provided by OCC Rule 609 and the section of the CRM Policy that addresses intra-day margin calls. The proposed revisions would update and clarify the description of OCC’s practices in the Margin Policy to better reflect a wider range of circumstances than are currently contemplated therein, and would not entail any changes to current OCC operations or margin collection practices.

The Collateral in Margins section provides that OCC shall promote incentives to hedge by including certain forms of margin within the STANS margin calculation, as specified in referenced rules approved by the Commission pursuant to section 19(b) of

²⁵ See Exchange Act Release No. 90797 (Dec. 23, 2020), 85 FR 86592, 86593 (Dec. 30, 2020) (SR-OCC-2020-014) (“The [Third-Party Risk Management Framework] describes OCC’s framework for managing risk throughout the relationship lifecycle (i.e., at on-boarding, monitoring and off-boarding) for Clearing Members, Financial Institutions, and vendors.”).

the Exchange Act.²⁶ OCC proposes to delete extraneous information regarding the content of OCC's rules, including that OCC's rules include scenarios that could impact Clearing Member exposures as a result of the collateral deposited. This information is implied by the beginning of the sentence, which explains that OCC intends to achieve the desired result by including margin collateral as specified in the referenced documents, and need not be duplicated in the Margin Policy.

The same section currently requires QRM to perform an analysis, in accordance with referenced procedures, to confirm that risk interactions between derivative and cash market positions are being appropriately recognized. OCC proposes to update the reference to conform to the current name of the referenced procedures. In addition, to remove potential ambiguity regarding the scope of the required analysis, OCC proposes to specify that the analyses performed by QRM in accordance with the referenced procedures should confirm that the STANS margin model is effectively modeling the risk interactions. This addition would clarify that the Margin Policy requires QRM's analyses to confirm the effectiveness of STANS' modeling of the risk interactions, but does not establish a requirement that QRM separately confirm the appropriate recognition of risk interactions between derivative and cash markets outside of the STANS margin model. The scope of QRM's obligation to confirm that risk interactions are being appropriately recognized in STANS is reasonably and fairly implied in the context of the paragraph, which discusses collateral that is included in STANS margin calculations, but OCC proposes to add specificity to enhance clarity regarding QRM's obligations.

In the Risk Factors section, OCC proposes to change the description of its evaluation of the appropriateness of risk factors considered within its models to strike "on an ongoing basis" and replace it with "on a regular basis." That section lists several types

²⁶ 15 U.S.C. 78s(b).

of periodic reviews designed to achieve this aim, including reviews of Exchange proposals to list new products pursuant to referenced procedures, FRM's daily backtesting, monthly reporting of such backtesting results to the Model Risk Working Group ("MRWG")²⁷, and QRM's review of OCC's margin methodology in accordance with referenced procedures to reasonably ensure that the margin methodology incorporates all significant risk factors and supports the robustness of OCC's margin resources, which QRM performs monthly or more frequently as required by regulations applicable to OCC.²⁸ In addition, as discussed elsewhere in the Margin Policy, OCC's Model Risk Management business unit performs an annual review of the overall performance of the STANS margin methodology and its associated models. The periodicity of such reviews is discussed elsewhere in the Margin Policy. This revised text would be consistent with similar revisions noted above,²⁹ as well as the timeline for periodic reviews of risk model performance conducted under applicable policies and procedures. The proposed rule change would not entail a change to current OCC operations.

The same paragraph also provides that FRM shall continually evaluate the effectiveness of specified risk models. OCC proposes to delete the modifier "continually" as it could be read to create an expectation that OCC conducts 24/7 evaluations of its models. The revisions would only change the description of OCC's

²⁷ The MRWG is a cross-functional group responsible for assisting OCC's Management Committee in overseeing and governing OCC's model-related risk issues and currently consists of representatives from FRM, including QRM, and from Corporate Risk Management, including Model Risk Management.

²⁸ See 17 CFR 240.17Ad-22(e)(6)(vi)(C) (requiring a clearing agency to conduct sensitivity analysis of its margin model and a review of its parameters and assumptions for backtesting more frequently than monthly during periods of time when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the covered clearing agency's participants increases or decreases significantly).

²⁹ See supra notes 14-15 and accompanying text.

practices in the Margin Policy to enhance consistency with regard to its current model performance review process and would not impact OCC operations.

In the same section, OCC proposes to delete text indicating that QRM is responsible for reasonably ensuring that margin methodologies incentivize Clearing Members to be aware of their own risks and mitigate their exposures. One of QRM's primary responsibilities, as discussed above, is to establish, implement, maintain and review margin methodologies to reasonably ensure that they incorporate all significant risk factors and support the robustness of OCC's margin resources. The measure of any incentive effect from OCC's margin methodology on Clearing Members' awareness of risk or mitigation of exposures is inherently qualitative and falls outside of QRM's ordinary remit. OCC further believes that well-designed margin methodologies would naturally support the creation of incentives at each Clearing Member to be aware of and mitigate their risks. Accordingly, OCC proposes to remove QRM's responsibility to monitor indirect and qualitative effects of the methodology at third-party Clearing Members while retaining that team's primary responsibilities with respect to quantitative aspects of margin model design, implementation, monitoring and review processes.

The Market Data and Pricing Considerations section provides that P&M shall transmit pricing data to both OCC's primary and back-up data centers, pursuant to a referenced procedure. OCC proposes to delete this operational detail with respect to OCC's current data infrastructure from the Margin Policy. Changes in OCC's data infrastructure could render that statement inaccurate and the reference to OCC's current primary and back-up data centers is not intended to be a rule per se.³⁰ In any event, the statement about transmission of data is reasonably and fairly implied by the existing text

³⁰ See Exchange Act Release No. 96113 (Oct. 20, 2022), 87 FR 64824 (Oct. 26, 2022) (SR-OCC-2021-802) (SEC notice of no objection to OCC's proposed adoption of cloud infrastructure for OCC's new clearing, risk management, and data management applications).

of the section, which provides that P&M shall review the quality and completeness of market data “prior to distribution [to] downstream systems and external consumers.”

The same section also provides that OCC shall rely upon real-time market data in order to continually evaluate the value of Clearing Member portfolios. OCC proposes to remove the “real-time” qualifier for enhanced accuracy because other market data beyond real-time data is also relevant to OCC’s evaluation process. The proposed rule change would clarify that OCC may use intraday data. As above, the statement that OCC “continually” evaluates the value of portfolios could be read to imply that OCC values portfolios on a 24/7 basis. OCC proposes to revise this statement to say that it evaluates portfolios “during market hours,” which OCC believes to be consistent with its regulatory and risk management obligations. These revisions are for clarification only and would not entail any changes to current OCC operations.

The following paragraph in the same section provides that P&M shall systemically process and manually validate referenced settlement values in accordance with a referenced procedure. OCC proposes to delete “systemically” with regard to processing and “manually” with regard to validations in order to provide OCC with an appropriate degree of flexibility in determining how it shall process and validate the referenced values. Operational details regarding the conduct of such processes and validations are contemplated in the referenced procedure. OCC believes it is unnecessary to duplicate those operational terms in the Margin Policy as doing so creates the risk of inaccuracy in the Margin Policy should the relevant processes be amended in the future in accordance with applicable governance requirements. The proposed revisions would remove from the Margin Policy constraints on the mechanical processes OCC could use to process and validate referenced settlement values, but would not significantly impact OCC’s core clearance, settlement or risk management activities.

In the Recalibration section, OCC proposes to update the discussion of the recalibration process for STANS econometric models to reflect its automation. The revised text would provide that recalibrations are to be performed systemically as reflected in the current STANS Methodology Description.³¹ P&M would retain responsibility for monitoring outputs of the process and escalating issues and the stated timeline for the processing would not need to change. The proposed revisions would update the description of OCC's mechanical process for recalibrations to reflect the automation of certain components, but would not otherwise impact its overall method for recalibrations or OCC's core clearance, settlement, and risk management activities.

In the same section, OCC proposes to add a footnote to explain that synthetic futures represent an exception to the 10-year lookback period for univariate parameters. This revision does not impact OCC's operations as it merely conforms the discussion in the Margin Policy to be consistent with what is reflected in the STANS Methodology Description.³²

The Stress Test Components section of the Margin Policy currently provides that FRM is required to continually evaluate the portion of stress losses that are not collected as margin against the Clearing Member's net capital, in accordance with referenced procedures, and require the Clearing Member to deposit additional margin, in accordance with Rules 601 and 609, in an amount equal to the exposure in excess of its net capital where FRM determines that the uncollateralized exposure exceeds the Clearing Member's ability to absorb the loss based on its current capitalization. For clarity, OCC proposes to add that OCC's policy of calling for additional margin in such circumstances does not preclude OCC from taking other protective measures under OCC's recently

³¹ See Exchange Act Release No. 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (SR-OCC-2020-016) (approving the establishment of the STANS Methodology Description).

³² See id.

amended Rule 307 if FRM determines a Clearing Member's uncollateralized exposure presents elevated risk to OCC, including restrictions on distributions under Rule 307A, restrictions on certain transactions, positions and activities under Rule 307B, and additional operational, personnel, financial resource and risk management requirements under Rule 307C.³³

The SPAN section states that the System for Portfolio Analysis of Risk ("SPAN")³⁴ is used to assess risk for a wide variety of financial instruments, including futures, options, physicals, equities or any combination thereof. OCC proposes to delete such informational background on SPAN's capabilities as it is irrelevant to the discussion of how OCC uses SPAN to calculate margin requirements, which is the focus of this section, and OCC does not use SPAN to assess risk for all the instruments listed in that sentence. OCC also proposes to relocate a statement regarding OCC's use of SPAN to compute gross margin for all segregated futures customers' accounts within the paragraph in order to enhance clarity.

OCC also proposes to revise the Scan Ranges section of the Margin Policy, which details certain functions related to the SPAN methodology. While this section accurately describes OCC's use of scan ranges to establish margin covered under SPAN, OCC also performs recalibration of spread rates and other parameters under the SPAN methodology. For completeness, OCC proposes to specify parameters in addition to scan ranges that are used to calculate SPAN margin requirements. These changes would align the text of the Margin Policy with existing practices. OCC also proposes to delete the Scan Ranges section header in light of the expanded scope of parameters addressed thereunder. In the same section, OCC proposes to extend P&M's recalibration

³³ See Exchange Act Release No. 97439 (May 5, 2023), 88 FR 30373, 30376 (May 11, 2023) (SR-OCC-2023-002) (approving amendments to OCC's membership standards).

³⁴ SPAN is a methodology developed by the Chicago Mercantile Exchange and used by many clearinghouses and exchanges around the world to calculate margin requirements on futures and options on futures.

responsibilities beyond scan ranges to include the additional parameters. These changes are reasonably and fairly implied by the SPAN section of the Margin Policy, which requires OCC to compute gross margin for all segregated futures customers' accounts using SPAN.

In the same section, OCC proposes to revise its description of maintenance and initial margin calculations. These proposed changes are descriptive only and would not substantively alter OCC's margin calculation process or the ratio between the calculated amounts. This section currently provides that minimum scan ranges used to satisfy the initial speculator margin and spread rates shall exceed 110% of the 99% VaR of the daily historical observations. To enhance clarity around its initial and maintenance margin calculations and the ratio between the two values and update terminology with the latest conventions, OCC proposes to provide that the scan ranges established for the calculation of maintenance margin shall exceed the 99% VaR of the daily historical observations, and further provide that the scan ranges established for heightened risk profile margin calculations shall be at least 110% of that maintenance margin amount. These revisions only change the description of the two rates and the ratio between them to enhance clarity and are consistent with OCC's current calculation practices for maintenance and initial margin and the latest terminology used by the CFTC.³⁵

In the same section, OCC proposes to add that inter-month spread charges, in addition to SPAN scan ranges, incorporate a long-run historical estimate or look to periods of heightened volatility to guard against pro-cyclicality. The added reference to "inter-month spread charges" is consistent with OCC's current process for calculating margin requirements under SPAN. OCC also proposes to add that the standard historical data look-back period used to establish scan ranges shall be "at least" 500 business days,

³⁵ See Final Rule, Derivatives Clearing Organization General Provisions and Core Principles (Dec. 20, 2019), 85 FR 4800 (Jan. 27, 2020) (amending CFTC Rule 39.13(g)(8)(ii)).

except as provided in a referenced procedure. The addition of “at least” would be clarifying and would not impact OCC’s current approach to the SPAN margin calculations. OCC also proposes to remove “volatility” from the phrase “long-run historical volatility estimate,” which is only a textual change and would not impact OCC’s current approach to SPAN margin calculations.

In the same section, OCC also proposes to remove the parenthetical example of unique risk characteristics attributable to particular products. The single example provided is not exhaustive and the referenced procedure includes additional detail regarding risk characteristics. Duplicating this information in the Margin Policy is unnecessary and creates the risk of inaccuracy in the Margin Policy should the relevant processes be amended in the future in accordance with applicable governance requirements.

In the Intraday Margin Calls section, OCC proposes to change references to a “window” for issuing margin calls to a “standard time for processing”, or similar term. This change would enhance the clarity of the discussion in the Margin Policy by adopting uniform, clear language to refer to margin calls issued during the standard processing timeline, without impacting OCC operations associated with issuing margin calls.

In the Extended Trading Hours Margin Calls section, OCC proposes to insert a reference to a “standard time for processing” an extended trading hours margin call and provide that OCC will establish such standard time in the referenced procedure. The use of the “standard time for processing” term is intended to align with the adoption of similar language in the immediately preceding Intraday Margin Calls section, as discussed above. The establishment of the deadline in a referenced procedure is consistent with and reasonably and fairly implied by OCC Rule 601(a), which authorizes OCC to specify the time by which Clearing Members are required to deposit margin with the Corporation. The proposed revision would not impact the operations of OCC as it

relates to OCC's core clearance, settlement, and risk management activities. In the same section OCC proposes to remove a reference to the 9:00 AM CT deadline for OCC to issue an extended trading hours margin call. Rule 601(a) authorizes OCC to specify the time by which every Clearing Member shall be obligated to deposit margin assets. OCC believes that reflecting such operational terms in the Margin Policy creates the risk of inaccuracy in OCC's Margin Policy, which is filed as a rule with the Commission, should the specified deadline be amended or extended in accordance with applicable governance requirements. Accordingly, OCC has determined to remove the specific reference within OCC's internal Margin Policy and instead refer to applicable procedures to establish the relevant timeline by which the margin call must be issued. OCC's authority to amend or extend the deadline to deposit margin is fairly and reasonably implied by the text of Rule 601(a), and the proposed revisions would better enable OCC to give effect to this authority.

The Holiday Margin Calls section requires OCC to issue holiday margin calls in specified amounts and circumstances. Currently, that section provides that when an account is subject to both a holiday and position risk margin call on the same day, OCC applies the larger of the two. Subsequent to the addition of this provision to the Margin Policy, OCC amended its rules to reflect Clearing Fund margin calls—that is, margin calls for a Clearing Member Group when an estimate of its Clearing Fund Draw³⁶ exceeds 75% of the amount of the current Clearing Fund.³⁷ Pursuant to OCC's authority

³⁶ The term "Clearing Fund Draw" refers to an estimated stress loss exposure in excess of margin requirements.

³⁷ See Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855 (Aug. 2, 2018) (SR-OCC-2018-008) (amending Rule 609 related to intra-day margin).

under OCC Rules 601(c)³⁸ and 609,³⁹ it is OCC's practice to issue a Clearing Fund margin call in situations where a Clearing Member is subject to these other types of margin calls and the Clearing Fund margin call is the largest of the three. OCC proposes to update the Margin Policy to reflect this practice. Specifying Clearing Fund calls as an additional category of margin call would align the discussion in the Margin Policy with the types of calls OCC issues today and would not entail a change to current OCC operations or margin collection processes.

The Review of Margin Methodology section outlines Model Risk Management's responsibilities for evaluating the overall performance of STANS at least annually, in accordance with referenced policies and procedures, and for reporting its findings to the Risk Committee, which is tasked with reviewing the adequacy of OCC's margin and clearing fund methodology, including the STANS margin methodology, at least once every twelve months. OCC proposes to delete a duplicative reference in the Margin Policy regarding Model Risk Management's obligation to produce an annual report of the STANS margin methodology, which is fairly and reasonably implied in the preceding sentence as well as the Risk Committee Charter.⁴⁰ OCC also proposes to delete references to Model Risk Management's obligations to present its validation findings and annual report of the STANS margin methodology to the Risk Committee. Model Risk Management is the primary group responsible for ensuring the completion of the annual validation, which it conducts in accordance with applicable procedures, and reporting of its findings. Because the requirement to validate STANS is established in OCC's rules

³⁸ See OCC Rule 601(c) ("Notwithstanding any other provision of this Rule 601, [OCC] may fix the margin requirement for any account or any class of cleared contracts at such amount as it deems necessary or appropriate under the circumstances to protect the respective interests of Clearing Members, [OCC], and the public.")

³⁹ See OCC Rule 609 ("The Corporation may require the deposit of additional margin ('intra-day margin') by any Clearing Member in any account at any time during any business day to . . . protect [OCC], other Clearing Members or the general public.")

⁴⁰ See OCC Risk Committee Charter, available at <https://www.theocc.com/company-information/documents-and-archives/board-charters> (last revised May 26, 2022).

and applicable procedures establish how Model Risk Management plans and conducts its validation and reports any findings to the Risk Committee, OCC believes it is unnecessary to duplicate such details in the Margin Policy as doing so creates the risk of inaccuracy in the Margin Policy should the relevant requirements or processes be amended in the future in accordance with applicable governance requirements.

Like the changes to the CRM Policy discussed above, OCC proposes to make clarifying, conforming and other non-substantive changes to the Margin Policy. The proposed changes discussed below would not substantively alter the meaning of the revised provisions or the substance or requirements of the Margin Policy as they relate to OCC's core clearance, settlement, and risk management activities. The following conforming revisions are intended to align the text of the Margin Policy with existing provisions of the Rulebook, By-Laws or other documents, as applicable, and to update the titles of documents referenced in the Margin Policy:

- The STANS section describes STANS as modeling the volatility of individual products and the correlation amongst products. OCC proposes to replace references to “products” in this sentence with references to “risk factors.” These proposed revisions would align references in the Margin Policy and the STANS Methodology Description without impacting OCC's operations or risk management activities.
- The Recalibration section provides that recalibrations will incorporate a long-run historical volatility estimate, which serves as a floor during periods of low market volatility to reduce pro-cyclicality in OCC's margin estimates. OCC proposes to replace “reduce” with “control,” to more affirmatively state OCC's intent in adopting volatility floors.
- The Margin Policy currently contains references to certain related policies, procedures and other documents that OCC maintains in support of the Margin

Policy. These documents are reviewed and updated on a periodic basis, which at times may result in the consolidation of certain related policies, procedures and documents or changes in their names. OCC proposes to revise the Margin Policy to update internal policy and procedure names to reflect any changes resulting from these periodic reviews to ensure the accuracy, consistency, and clarity of the Margin Policy. The proposed changes are administrative in nature and are not intended to change the substance of the Margin Policy.

The following clarifying revisions are intended to restate existing provisions for improved clarity and accuracy:

- In the Segregated Futures Customer Gross Margining section, OCC proposes to insert “for these accounts” to clarify that OCC will effect gross margining for customer segregated futures accounts. The revision is only intended to clarify the applicability of the statement.
- In the Collateral in Margins section, OCC proposes to revise “certain forms of margin” within the STANS margin calculation to “certain forms of collateral” instead. This change is to enhance clarity in the description of OCC’s operations but does not change the meaning of the provision or OCC’s operations. The same section provides that OCC’s Management Committee shall be ultimately responsible for determining which types of collateral are included in STANS margin calculations. OCC proposes to remove “ultimately” to enhance clarity, as the Management Committee’s authority to make such determinations derives from the Board, which implies that the Board has “ultimate” responsibility for such decisions. OCC also proposes to change a reference to “exchange traded fund[s]” in a parenthetical providing examples of deposits of collateral eligible for inclusion in STANS to “exchange traded product[s]” because collateral-in-margin treatment also extends to exchange traded notes.

- In the Market Data and Pricing Considerations section, the Margin Policy establishes that P&M shall reasonably ensure that measures are taken to review the quality and completeness of market data prior to its distribution. OCC proposes to remove the qualifying language and establish that P&M is responsible for reviewing the quality and completeness of market data, as opposed to reasonably ensuring that measures are taken to review the data, prior to its distribution. This deletion would clarify P&M’s obligation for reviewing market data quality and completeness before it is distributed to downstream systems and external consumers. The proposed revision would add clarity to the Margin Policy and better ensure the integrity of market data at the critical stage prior to its downstream or external consumption.
- In the Recalibration section, the Margin Policy provides that where P&M has “reasonable grounds for believing (e.g., with a newly created passive ETF tracking a longstanding index) that a suitable proxy exists,” such proxy may be used in place of the default distribution pursuant to the referenced procedure. OCC proposes to restate this section for additional clarity. The revised text would state that where P&M has “reasonable grounds for assigning a suitable proxy (e.g., a newly created passive ETF tracking a longstanding index),” such proxy may be used in place of the default distribution pursuant to the referenced procedure. These revisions would more clearly state P&M’s obligations as well as the circumstances in which P&M may exercise its discretion. In addition, OCC would amend a reference to the Model Risk Management business unit (formerly known as the Model Validation Group or “MVG”) to reflect the current name of

that department, consistent with changes that OCC made to other such references in a prior rule filing.⁴¹

- In the Add-on Charges section, the Margin Policy states that in some instances, exposures that may be modeled outside of STANS through the use of add-on charges may not require sophisticated models to be derived. OCC proposes to remove “in some instances” as it is implied by the beginning of the sentence, which states that these exposures “may” not require sophisticated models to be derived, as well as language in the next sentence referring to “other instances.” In addition, the Margin Policy states that consistent with the referenced procedure, MRWG has the discretion to recommend approval of add-on margin charges to the Management Committee. OCC proposes to delete the reference to MRWG’s discretion as it is implied by the language that MRWG “may” recommend approval.
- In the Margin Monitoring section, OCC proposes to clarify that FRM conducts the backtests that are designed by QRM. This division of labor is implied in the preceding statements of that section and is appropriately reflected in the relevant procedures.

Finally, OCC proposes to make typographical and administrative changes to the Margin Policy intended to correct spelling, punctuation and grammar and remove unnecessary verbiage in the Margin Policy.

(2) Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A of the Act⁴² and the rules thereunder applicable to OCC by improving the accuracy, clarity, and

⁴¹ See Exchange Act Release No. 95842 (Sept. 20, 2022), 87 FR 58409, 58419 (Sept. 26, 2022) (SR-OCC-2022-010) (proposing conforming changes to OCC’s risk management policies regarding the name of OCC’s Model Risk Management business unit).

⁴² 15 U.S.C. 78q-1.

consistency of the OCC Policies so that they remain reasonably designed to achieve the standards and requirements thereunder. Section 17A(b)(3)(F) of the Act⁴³ 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 the extent applicable, derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing or agency or for which it is responsible. In turn, Exchange Act Rule 17Ad-22(e)(1) through (3) require OCC to maintain written policies and procedures reasonably designed to, among other things:

- ensure a well-founded, clear, transparent, and enforceable legal basis for each aspect of OCC's activities;⁴⁴
- provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility;⁴⁵ and
- maintain a risk management framework that includes policies, procedures and systems that are designed to manage risks and which are subject to periodic review and annual approval by the Board.⁴⁶

OCC believes that the proposed changes, which are intended to better reflect current practices, remove extraneous information, and make other non-substantive, clarifying and administrative changes to the text of those policies, are consistent with the Exchange Act and these requirements for the following reasons.

1. Update descriptions to better align with current practices

⁴³ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁴ 17 CFR 240.17Ad-22(e)(1).

⁴⁵ 17 CFR 240.17Ad-22(e)(2).

⁴⁶ 17 CFR 240.17Ad-22(e)(3).

The proposed rule changes are designed to align the text of the OCC Policies with current practices and to otherwise enhance accuracy, clarity and consistency in the documents. The OCC Policies, including descriptions of practices and processes therein, are subject to periodic review. The proposed rule change would apply recommendations made as part of OCC's annual review of the OCC Policies and which are intended to ensure the OCC Policies maintain accurate descriptions of OCC practices and operations. These changes are primarily clarifying in nature and would not significantly alter the substance or requirements of the OCC Policies as they relate to core clearing, settlement or risk management activities. OCC believes improving the clarity of the descriptions in the OCC Policies, which are central to OCC's clearance and settlement activities, will, in turn, promote the accurate clearance and settlement of securities transactions and the safeguarding of securities and funds, in accordance with Section 17A(b)(3)(F) of the Exchange Act.⁴⁷

The proposed rule change would also update descriptions of processes and governance requirements in the OCC Policies to align with current practices and requirements. OCC believes these proposed revisions would thus support clarity in OCC's governance arrangements and better ensure that OCC's lines of responsibility are clear and direct, in accordance with Exchange Act Rule 17Ad-22(e)(2).⁴⁸

The proposed rule change would apply updates to the OCC Policies that were recommended pursuant to annual reviews by the Board. The proposed revisions would not significantly impact the practices relating to OCC's core clearance, settlement, and risk management activities. Accordingly, OCC believes the proposed rule changes would

⁴⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁸ 17 CFR 240.17Ad-22(e)(2).

support its obligation to maintain a sound risk management framework that is subject to periodic review and annual approval by the Board in accordance with 17Ad-22(e)(3).⁴⁹

2. Delete extraneous information

The proposed rule change would remove extraneous information, including certain provisions that are substantively duplicative of provisions that are reasonably and fairly implied by other OCC rules or that do not independently meet the criteria of rules, stated policies, practices or interpretations. Certain provisions to be removed consist of background information that does not establish an OCC requirement or impact its practices. These proposed changes would enhance clarity by deleting provisions from the OCC Policies that do not create OCC obligations or substantively impact its practices or operations. Other provisions to be removed consist of text that duplicates provisions found in OCC's By-Laws and Rules or other documentation filed with the Commission. OCC believes that it can avoid potential future confusion by removing from the OCC Policies information that is appropriately maintained in other documentation. Removing this information from the OCC Policies will eliminate inconsistencies that could arise from maintaining it in multiple places with different approval processes. Accordingly, OCC believes that removal of these extraneous provisions would facilitate the effective administration of OCC's policies and procedures, which support the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds, and thus is consistent with the requirements of Section 17A(b)(3)(F) of the Exchange Act.⁵⁰ OCC also believes that removing these duplicative provisions from the OCC Policies would enhance clarity around OCC's governance arrangements, better ensure clear and direct lines of responsibility and prioritize efficient governance

⁴⁹ 17 CFR 240.17Ad-22(e)(3).

⁵⁰ 15 U.S.C. 78q-1(b)(3)(F).

processes for the relevant provisions, in accordance with the requirements of Exchange Act Rule 17Ad-22(e)(2).⁵¹

3. Non-substantive, clarifying and administrative changes

OCC proposes to make other non-substantive, clarifying and administrative changes to the OCC Policies to enhance their accuracy, clarity and consistency with other OCC rules. By correcting typographical errors, updating references to documentation, and conforming references with other documentation and descriptions, the proposed revisions would help facilitate the administration of existing rules that are intended to promote the prompt and accurate clearance and settlement of securities and derivatives transactions, in accordance with Section 17A(b)(3)(F) of the Exchange Act.⁵² In addition, correcting errors, making clarifications and conforming references and descriptions within the OCC Policies would improve their clarity, in accordance with the requirements of Exchange Act Rule 17Ad-22(e)(1).⁵³

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

Section 17A(b)(3)(I) of the Act⁵⁴ 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 change would have any impact or impose a burden on competition. The proposed rule change is intended to update internal policies to better reflect OCC's current practices, remove duplicative provisions that could result in overlap or inconsistencies with other OCC documentation and to make other administrative updates that would have no impact on Clearing Members or other market participants. None of the proposed updates to the OCC Policies would affect Clearing Members' access to OCC's services or impose any direct

⁵¹ 17 CFR 240.17Ad-22(e)(2).

⁵² 15 U.S.C. 78q-1(b)(3)(F).

⁵³ 17 CFR 240.17Ad-22(e)(1).

⁵⁴ 15 U.S.C. 78q-1(b)(3)(I).

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.

(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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act⁵⁵ and paragraph (f) of Rule 19b-4⁵⁶ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.⁵⁷

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

⁵⁵ 15 U.S.C. 78s(b)(3)(A).

⁵⁶ 17 CFR 240.19b-4(f).

⁵⁷ Notwithstanding its immediate effectiveness, implementation of this rule change will be delayed until this change is deemed certified under CFTC Regulation 40.6.

- Send an email to rule-comments@sec.gov. Please include file number SR-OCC-2023-008 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-2023-008. This file number should be included on the subject line if email 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-2023-008 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵⁸

Sherry R. Haywood,

Assistant Secretary.

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