



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-99392; File No. SR-OCC-2024-002]

### **Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning Amendments to The Options Clearing Corporation's Rules, By-Laws, and Certain Clearing Member Documents**

January 19, 2024.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 10, 2024, 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. 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 the OCC Rules, By-Laws, and certain Clearing Member documents<sup>3</sup> in connection with the recent amendments adopted by the Commission to Rule 15c6-1(a)<sup>4</sup> under the Exchange Act. The amendments to Rule 15c6-1(a)<sup>5</sup> shorten the standard settlement cycle for most broker-dealer securities transactions from two business days after the trade date to one business day after the trade date.

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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> The Clearing Member documents consist of contracts and forms, that in conjunction with OCC's By-Laws and Rules, establish and govern the relationship between OCC and each Clearing Member. See Exchange Act Release No. 73577 (Nov. 12, 2014), 79 FR 68733 (Nov. 18, 2014) (File No. SR-OCC-2014-20).

<sup>4</sup> 17 CFR 240.15c6-1(a).

<sup>5</sup> Id.

The proposed changes are included in Exhibits 5A through 5F to File No. SR-OCC-2024-002. Material proposed to be added 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.<sup>6</sup>

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

(1) Purpose

The proposed rule change consists of modifications to OCC Rules, By-Laws, and certain Clearing Member documents in connection with the recently adopted amendments to Commission Rule 15c6-1(a) to shorten the standard settlement cycle for most broker-dealer securities transactions from two business days after the trade date (“T+2”) to one business day after the trade date (“T+1”).<sup>7</sup> Specifically, OCC proposes to (i) revise provisions connected to late exercise that are impacted by a shortened settlement cycle, (ii) change timeframes related to the standard settlement cycle to reflect T+1, and (iii) make certain other conforming and clarifying changes. The compliance date regarding the amendments to Rule 15c6-1(a) is May 28, 2024.<sup>8</sup>

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<sup>6</sup> OCC’s By-Laws and Rules can be found on OCC’s public website, available <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

<sup>7</sup> Exchange Act Release No. 96930 (Feb. 15, 2023), 88 FR 13872 (Mar. 6, 2023) (“T+1 Adopting Release”).

<sup>8</sup> Id.

## Background

Rule 15c6-1 establishes a standard settlement cycle for most purchases or sales of securities by broker-dealers. The Commission adopted Rule 15c6-1(a) in 1993 to establish T+3 as the standard trade settlement cycle (instead of five business days after the trade date), and it became effective in June 1995.<sup>9</sup> In March 1995, the Commission approved changes to OCC's Rules that were proposed to ensure consistency with the new T+3 standard settlement cycle.<sup>10</sup> In 2017, the Commission amended Rule 15c6-1(a) to shorten the standard settlement cycle from T+3 to T+2.<sup>11</sup> In coordination with the Commission's designated September 2017 compliance date, OCC adopted changes to its Rules and By-Laws to ensure consistency with the new T+2 standard settlement cycle.<sup>12</sup>

Since the change to T+2, the Commission and the financial services industry have continued to explore the idea of shortening the settlement cycle even further. In February 2021, the Depository Trust and Clearing Corporation ("DTCC") published a White Paper discussing the benefits of accelerated settlement beyond T+2.<sup>13</sup> Following the publication, the securities industry formed an Industry Steering Committee ("ISC") and an Industry Working Group ("IWG") to develop industry consensus to transition to an accelerated settlement cycle.<sup>14</sup> The ISC engaged Deloitte & Touche LLP ("Deloitte") to support the effort, including facilitating analysis on the benefits and barriers to

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<sup>9</sup> Exchange Act Release No. 33023 (Oct. 6, 1993), 58 FR 52891 (Oct. 13, 1993) (final rule adopting Rule 15c6-1); Exchange Act Release No. 34952 (Nov. 9, 1994), 59 FR 59137 (changing the effective date of the final rule from June 1, 1995 to June 7, 1995).

<sup>10</sup> Exchange Act Release No. 35552 (Mar. 30, 1995), 60 FR 17600 (Apr. 6, 1995) (SR-OCC-94-11).

<sup>11</sup> Exchange Act Release No. 80295 (Mar. 22, 2017), 82 FR 15564 (Mar. 29, 2017).

<sup>12</sup> Exchange Act Release No. 81008 (June 23, 2017), 82 FR 29598 (June 29, 2017) (SR-OCC-2017-015) (filed for immediate effectiveness on June 9, 2017).

<sup>13</sup> See DTCC, "Advancing Together: Leading the Industry to Accelerated Settlement" (Feb. 2021), available at <https://www.dtcc.com/-/media/Files/PDFs/White%20Paper/DTCC-Accelerated-Settle-WP-2021.pdf>.

<sup>14</sup> Exchange Act Release No. 94196 (Feb. 9, 2022), 87 FR 10436 (Feb. 24, 2022) ("T+1 Proposing Release").

transitioning to T+1 and coordinating with the industry on the transition.<sup>15</sup> In December 2021, DTCC, SIFMA, and ICI, together with Deloitte, published a report containing the ISC’s recommendations for migrating to a T+1 standard settlement cycle.<sup>16</sup>

On February 9, 2022, the Commission proposed amendments to Rule 15c6-1(a) to shorten the standard settlement cycle to T+1 on the basis that the shorter settlement cycle would reduce the credit, market and liquidity risks in securities transactions faced by market participants and U.S. investors.<sup>17</sup> On February 15, 2023, the Commission adopted these amendments to Rule 15c6-1(a).<sup>18</sup> In light of this action by the Commission, OCC proposes to implement the changes described herein in connection with the T+1 settlement cycle on the Commission’s designated T+1 compliance date.

### **Proposed Changes**

OCC proposes certain amendments in light of the anticipated industry move to a T+1 settlement cycle. OCC has determined that shortening the settlement cycle to T+1 would require revisions to OCC Rules, By-Laws, and Clearing Member documents, which are currently aligned with a T+2 settlement cycle. Specifically, OCC proposes to (i) revise provisions connected to late exercise that are impacted by a shortened settlement cycle, (ii) change timeframes related to the standard settlement cycle to reflect T+1, and (iii) make certain other conforming and clarifying changes.

#### *(i) Provisions Connected to Late Exercise*

OCC proposes to amend provisions in Chapter VIII of the Rules that are affected by a shortened settlement cycle. Rules 801 and 805 require Clearing Members to submit

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<sup>15</sup> Id.

<sup>16</sup> See Deloitte, DTCC, Investment Company Institute (“ICI”), and Securities Industry and Financial Markets Association (“SIFMA”), “Accelerating the U.S. Securities Settlement Cycle to T+1” (Dec. 1, 2021), available at <https://www.sifma.org/wp-content/uploads/2021/12/Accelerating-the-U.S.-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf>.

<sup>17</sup> T+1 Proposing Release, supra note 14; see also Commission Press Release 2022-21: “SEC Issues Proposal to Reduce Risks in Clearance and Settlement” (Feb. 9, 2022).

<sup>18</sup> T+1 Adopting Release, supra note 7.

exercise notices within the timeframes prescribed by OCC.<sup>19</sup> These Rules currently set out an exception process to accommodate notices submitted after these timeframes. OCC's late exercise process provides final deadlines by which late exercise notices must be received by OCC and subjects Clearing Members to potential disciplinary action (as the filing of such notice may be deemed a violation) and liability for a late filing fee, among other things.<sup>20</sup> More specifically, subject to certain conditions, Rule 801, which addresses the exercise of options other than at expiration, allows a Clearing Member to file an exercise notice after the prescribed deadline solely for the purpose of correcting a bona fide error on the part of the Clearing Member or a customer and imposes liability for a late filing fee of \$250,000 per line item listed on the notice. Similarly, OCC Rule 805, which addresses exercises on expiration, imposes liability for a late filing fee of \$250,000 per line item on a Clearing Member that submits an exercise notice after the prescribed deadline.

OCC proposes to cease facilitating the late exercise process after the move to T+1. OCC reviewed its internal operational processes to assess the implications of the shortened settlement cycle on late exercises. Currently, when a late exercise is processed, OCC sends the delivery information to the National Securities Clearing Corporation ("NSCC") for T+1 settlement.<sup>21</sup> Reducing the standard settlement time to T+1 would reduce the time available to OCC and NSCC to transmit information and perform

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<sup>19</sup> The current deadline for submitting exercise notices other than at expiration is 6:00 p.m. CT. The current deadline for submitting exercise notices at expiration is 8:00 p.m. CT on monthly standard Friday expirations, 7:00 p.m. CT on weekly Friday expirations, and 6:30 p.m. CT on Monday and Wednesday expirations.

<sup>20</sup> Under Rule 801, the deadline for submitting late exercise notices is 6:00 a.m. CT. Under Rule 805, the deadline for submitting late exercise notices is the expiration time of the option, which is currently 10:59 p.m. CT (as set forth in Article 1, Section 1(E)(23) of the By-Laws).

<sup>21</sup> OCC maintains a link with NSCC to facilitate the settlement of physically settled stock options and stock futures. More specifically, OCC and NSCC are parties to a Stock Options and Futures Settlement Agreement that specifies the time at which responsibility for the settlement of such obligations passes from OCC to NSCC (the "Accord"). See Exchange Act Release No. 81266 (July 31, 2017), 82 FR 36484 (Aug. 4, 2017) (File No. SR-OCC-2017-013).

operational and risk management steps associated with their arrangement. Specifically, moving to T+1 would require settlement activity from a late exercise to be sent to NSCC for same-day settlement, which is not supported by the Accord. Late exercise activity would thus not be guaranteed by NSCC, resulting in various implications, as the link between OCC and NSCC allows common clearing members, and their customers, to realize financial and operational efficiencies through the combined settlement of obligations from their OCC and NSCC cleared positions. OCC proposes to no longer accommodate late exercises due to operational challenges for same-day settlement and limitations under the Accord. Even if OCC were to find another operational mechanism outside of NSCC to process the settlement of a late exercise submission in a T+1 environment, any such processing would negate the settlement certainty for all market participants that the Commission seeks to achieve in its T+1 proposal.

OCC does not believe that such changes represent a significant departure from its current practices or the practices of other self-regulatory organizations. As described above, OCC's Rules allow OCC to prescribe timeframes during which Clearing Members may submit exercise notices. Following the proposed changes, OCC would continue to maintain deadlines for receiving exercise notices. The Financial Industry Regulatory Authority ("FINRA") and the options exchanges have similarly established a cut-off time for receiving exercise notices.<sup>22</sup> Moreover, the late exercise process at OCC is intended to be used in extenuating circumstances and is not routinely performed. The filing of a late exercise notice may be deemed a violation subject to disciplinary action under Rules 801 and 805. Most recently, in 2020, OCC raised the late filing fee from \$75,000 to \$250,000 per line item to further disincentivize late exercises.<sup>23</sup> For these reasons, OCC

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<sup>22</sup> See e.g., FINRA Rule 2360(b)(23)(A)(iii); Nasdaq Options 6B, Section 1(c); NYSE Arca Rule 6.24-O(c).

<sup>23</sup> See Exchange Act Release No. 88310 (Mar. 2, 2020), 85 FR 13198 (Mar. 6, 2020) (File No. SR-OCC-2020-001) (noting that the late exercise fee is intended to encourage Clearing Members to be diligent in processing exercise notices and to improve back office procedures).

would cease accepting late exercise notices and proposes to amend the following provisions in connection with such change.

OCC proposes to revise Rule 801, which addresses the exercise of options other than at expiration. OCC propose to remove language in paragraph (a) that requires a Clearing Member to prepare and preserve a memorandum describing the error that gave rise to a late filing. OCC also proposes to remove paragraph (d) that grants certain individuals the discretion to permit a Clearing Member to file a late exercise notice to correct a bona fide error, subject to certain conditions, including liability for a late filing fee, a final deadline for submission, and potential disciplinary action.<sup>24</sup> OCC accordingly proposes to remove a reference to paragraph (d) in Rule 801, Interpretation and Policy .02.

OCC propose similar changes to Rule 805, which addresses exercises on expiration. OCC proposes to remove the language in paragraph (c) and related language in paragraph (e) that allows Clearing Members to file late exercise notices subject to a final deadline for submission. OCC would replace the text in paragraph (c) with the term “Reserved.” OCC proposes to remove paragraphs (g), (h), and (i) that set out various terms and conditions governing the submission of late exercise notices, including liability for a late filing fee and potential disciplinary action for the Clearing Member. OCC would eliminate and update references to the provisions in Rule 805 (including the Interpretation and Policy) and make conforming changes throughout the Rules, including in Rules 1305, 1401, and 2702.

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<sup>24</sup> For the avoidance of doubt, Clearing Members may still correct errors following the proposed changes but must make any corrections prior to daily processing deadlines. OCC discussed the cessation of late exercises following T+1 with the Operations Roundtable, which solicits feedback from interested stakeholders such as Clearing Members. No substantive opposing views were raised in these discussions. See confidential Exhibit 3A to File no. SR-OCC-2024-002 for supporting data and analysis, including materials from Operations Roundtable meetings and information on past instances of late exercises.

(ii) *Timeframes Related to the Standard Settlement Cycle*

OCC proposes changes to timeframes in its Rules, By-Laws, and Clearing Member documents that are related to the current T+2 standard settlement cycle. The following provisions would need to be updated to facilitate the move to T+1 and are discussed in more detail below:

- OCC Rule 901 (Settlement Through Correspondent Clearing Corporations);<sup>25</sup>
- OCC Rule 903 (Obligation to Deliver);
- OCC Rule 1302 (Delivery of Underlying Securities);
- OCC Rule 1302B (Delivery of Underlying Treasury Securities);
- OCC Rule 1503 (Exercise Settlement Date for Event Options and Range Options);
- OCC Rule 2201 (Instructions to the Corporation);
- OCC Rule 2208 (Settlement Date);
- Article XXI of OCC's By-Laws (Stock Loan/Hedge Program);
- OCC Rule 2209A (Termination of Market Loans); and
- OCC Rule 2502 (Settlement Date for BOUNDS).

OCC proposes to amend certain of its Rules that govern the settlement of physically-settled options and futures through NSCC. Rule 901 requires that certain obligations be settled through the facilities of NSCC. Consistent with the new standard settlement cycle, OCC proposes to amend paragraph (c) of Rule 901 to remove a parenthetical indicating that "regular way" settlement under NSCC's rules and procedures does not occur on T+1. Further, paragraph (d) permits OCC to revoke a

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<sup>25</sup> Article I, Section 1.C.(32) of OCC's By-Laws defines the term "correspondent clearing corporation" to mean National Securities Clearing Corporation ("NSCC") or any successor thereto which, "by agreement with [OCC], provides facilities for settlements in respect of exercised option contracts or BOUNDS or in respect of delivery obligations arising from physically-settled stock futures." The Accord is the current agreement that governs NSCC settlement of OCC related activity.

specification in any delivery advice that settlement be made through the facilities of NSCC at any time prior to the obligation time. In such event, Rule 901(d) allows specified OCC senior officers to extend or postpone the time for delivery to no more than two business days after the date of such revocation. To be consistent with the T+1 settlement cycle, OCC proposes to change the amount of time that OCC has to extend or postpone the time of delivery to one business day.

OCC proposes related changes to conform language with the T+1 settlement cycle in Rule 901(f) and (g) and in certain associated Clearing Member documents. Rule 901(f) permits a Clearing Member (the “Appointing Clearing Member”) that is not an NSCC member to appoint another Clearing Member that is an NSCC member (the “Appointed Clearing Member”) to act on its behalf with respect to the settlement of exercised or matured cleared securities in its accounts through NSCC. OCC maintains a related Clearing Member document (the “Appointment of Clearing Member Form” or an “appointment form”) that permits the Appointed Clearing Member to act on behalf of the Appointing Clearing Member for this purpose. Rule 901(g) permits a Canadian Clearing Member, on behalf of which CDS Clearing and Depository Services Inc. (“CDS”)<sup>26</sup> maintains a subaccount at NSCC, to appoint CDS to act on its behalf with respect to the settlement of exercised or matured cleared securities in its accounts through NSCC. OCC also maintains a related Clearing Member document (the “Appointment of CDS — Stock Settlement Form” or an “appointment form”) that permits CDS to act on behalf of the Canadian Clearing Member for this purpose. Such appointments currently become effective as of the second business day following the day on which OCC receives written notice, or such later date as may be specified. Under the proposed rule change, OCC

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<sup>26</sup> CDS is Canada’s national securities depository, which, among other things, facilitates the settlement of cross-border transactions with the U.S. and has relationships with NSCC and The Depository Trust Company (“DTC”).

would replace the “second” business day with the “first” business day in Rule 901(f) and (g) and in the appointment forms.

Rule 903 governs a Clearing Member’s obligation to deliver when either a delivery advice or OCC directs that settlement be made on a broker-to-broker basis. Under Rule 903, the delivery date for physically-settled options is the second business day following the day on which the exercise notice was, or is deemed to have been, properly tendered to OCC, and the delivery date for physically settled security futures is generally the second business day following the maturity date. OCC proposes to replace references to the “second” business day with the “first” business day.

In Chapter XIII regarding futures, futures options and commodity options, OCC proposes to revise Rule 1302 concerning the delivery of underlying securities and Rule 1302B concerning the delivery of underlying Treasury securities. With certain exceptions, Rule 1302 currently provides that the delivery date for a physically-settled stock future is the second business day following the maturity date of the applicable series. Rule 1302B(a) currently provides that the delivery date for each physically-settled Treasury future in respect of which a delivery intent has been submitted (or deemed submitted) is the second business day following such submission (or deemed submission). OCC also maintains a related Clearing Member document (the “Designation of Clearing Member” or a “designation form”) that permits, among other things, a Clearing Member to designate another Clearing Member for the purposes of effecting settlement of physically-settled treasury futures through the Fixed Income Clearing Corporation (“FICC”).<sup>27</sup> OCC proposes to replace references to the “second” business day in Rules 1302 and 1302B and in the designation form with the “first” business day. OCC also proposes corresponding changes to update references from the

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<sup>27</sup> FICC provides central counterparty services to firms that participate in the U.S. Government and mortgage-backed securities markets.

“second” business day to the “first” business day with respect to applicable deadlines specified in paragraphs (d), (e), and (j) of Rule 1302B.

OCC proposes similar changes to make language consistent with the T+1 settlement cycle in Rule 1503. With certain exceptions, Rule 1503 currently provides that the exercise settlement date for a credit default option and credit default basket option is the second business day following the date on which the option is deemed to have been exercised. Under the proposed rule change, OCC would replace the “second” business day with the “first” business day.

OCC also proposes to amend provisions of its Rules and By-Laws concerning its two Stock Loan Programs. OCC operates two programs in which it acts as a central counterparty for stock loan transactions: the Stock Loan/Hedge Program and Market Loan Program.<sup>28</sup> The Stock Loan/Hedge Program allows Clearing Members to use borrowed and loaned securities to reduce OCC margin requirements. The Market Loan Program is a program whereby OCC processes and maintains stock loan positions that have originated through a Loan Market.<sup>29</sup>

In respect of the Stock Loan/Hedge Program, Rule 2201(c) currently permits a Canadian Clearing Member on behalf of which CDS maintains a subaccount at DTC to appoint CDS to act on its behalf with respect to effecting delivery orders for stock loan and stock borrow transactions in its accounts through DTC. OCC also maintains a related Clearing Member document (the “Appointment of CDS — Stock Loan Form” or an “appointment form”) that permits CDS to act on behalf of the Canadian Clearing Member for this purpose. Such appointment currently becomes effective as of the second

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<sup>28</sup> Information on the Stock Loan/Hedge Program and Market Loan Program can be found on OCC’s public website, available at <https://www.theocc.com/clearance-and-settlement/stock-loan-programs>.

<sup>29</sup> Article I, Section 1.L.(5) of OCC’s By-Laws defines “Loan Market” as an electronic platform included in OCC’s Market Loan Program that supports securities lending and borrowing transactions by matching lenders and borrowers based on loan terms that each party is willing to accept.

business day following the day on which OCC receives written notice, or such later date as may be specified. Under the proposed rule change, OCC would replace the “second” business day with the “first” business day in Rule 2201(c) and in the appointment form.

In addition, with respect to the Stock Loan/Hedge Program, Rule 2208(a) currently provides that the settlement date for the termination of a stock loan will be the earlier of: (1) the date on which the borrowing Clearing Member initiates the termination or (2) the date that is two stock loan business days after the date on which the lending Clearing Member initiates the termination. OCC proposes to amend Rule 2208(a) to change “two stock loan business days” to “one stock loan business day.”

OCC may terminate outstanding stock loans under certain conditions pursuant to Article XXI, Section 2(c) of OCC’s By-Laws with respect to the Stock Loan/Hedge Program. If any stock loans are so terminated, OCC is required to provide written notice to the affected Clearing Members specifying the date on which such termination is to become effective, which will be at least two stock loan business days after the date of such notice. OCC proposes to make the effective date consistent with the new T+1 settlement cycle by changing the minimum number of days between notice and termination from two to one.

Regarding the Market Loan Program, a market loan (i.e., a loan of eligible stock effected through a Loan Market) is terminated by the relevant Clearing Member providing a return or recall notice to the Loan Market with respect to a specified quantity of loaned stock under Rule 2209A. Rule 2209A(a)(3) discusses the scenario where a recall transaction fails to settle by the settlement time on the second stock loan business day following the day that the transaction was first submitted. OCC proposes to replace “second” stock loan business day with “first” stock loan business day. Under Rule 2209A(d), OCC may terminate outstanding market loans under certain conditions. If any market loans are so terminated, OCC is required to provide written notice to the affected

Clearing Members specifying the date on which such termination is to become effective, which will be at least two stock loan business days after the date of such notice. OCC proposes to make the effective date consistent with the new T+1 settlement cycle by changing the minimum number of days between notice and termination from two to one.

OCC proposes to amend Rule 2502 concerning the settlement date for BOUNDS. Namely, OCC proposes to update the settlement date for a BOUND contract from the second business day following the expiration date to the first business day.

*(iii) Conforming and Clarifying Changes*

OCC proposes changes to Chapter VI of its Rules related to deposits in lieu of margin. In lieu of depositing margin, OCC permits a Clearing Member or an approved custodian to deposit eligible collateral in respect of certain option contracts included in a short position in accordance with OCC Rule 610. More specifically, OCC permits certain types of deposits in lieu of margin, including member specific deposits, third-party specific deposits, and escrow deposits, which are further described in Rules 610A, 610B and 610C, respectively.<sup>30</sup>

With certain exceptions, OCC Rule 610C(o) provides that any escrow deposit in respect of a short position in stock put options will be released by OCC on its own initiative at a specified time on the fourth business day following the expiration date.<sup>31</sup>

OCC proposes to amend this outdated provision to state that such deposits will be released by OCC at a specified time following the expiration date. Reference to the specific business day would be removed from the Rules and, instead, would be

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<sup>30</sup> Member specific deposits are equity securities deposited by clearing members at DTC at the direction of their customers; third-party specific deposits are equity securities deposited by custodian banks at DTC at the direction of their customers; and escrow deposits can consist of cash deposits held at a custodian bank for the benefit of OCC, in addition to equities, and U.S. Government securities pledged to OCC through DTC by escrow deposit banks at the direction of their customers.

<sup>31</sup> The exceptions in OCC Rule 610C(o) include that (1) the Clearing Member's obligations in respect of such short position have not been satisfied or (2) the deposit is subject to a "hold" instruction (i.e., an instruction requesting that OCC not release such deposit).

centralized in and made available through the Operations Manual, along with other timeframes and deadlines specified by OCC.<sup>32</sup> The Operations Manual would state that this release of collateral would occur on the next business day following the expiration date. Shortening the period for the automatic release of collateral to the next business day following the expiration date would be in line with the changes described above to shorten the current settlement cycle to T+1. OCC believes that such change would align with the goals of the T+1 Adopting Release to reduce central counterparty exposure to credit, market, and liquidity risk arising from its obligations to its participants, as there is no need for OCC to hold the collateral for an extended period of time.<sup>33</sup>

OCC proposes conforming changes throughout Chapter VI. OCC proposes to amend Rule 610B(d)(2) regarding third-party specific deposits<sup>34</sup> and Rule 610C(p) regarding escrow deposits in respect of a short position in index options<sup>35</sup> to uniformly state that such deposits will be released by OCC at a specified time following the expiration date, which would be consistent with the language described above in amended Rule 610C(o). OCC also proposes language in new paragraph (2) of Rule 610A(c) to address the automatic release of any member specific deposits by OCC, which would largely align with the language in amended Rule 610B(d)(2).<sup>36</sup> This addition is

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<sup>32</sup> See Confidential Exhibit 3B to File no. SR-OCC-2024-002 containing the changes to the Operations Manual with material to be added in underlined text and material to be deleted in strikethrough text.

<sup>33</sup> See T+1 Adopting Release, *supra* note 7.

<sup>34</sup> Rule 610B(d)(2) provides that any third-party specific deposit will be released by OCC on its own initiative at a specified time on the business day following the exercise settlement date unless (1) the settlement obligations in respect of such short position have not been met, that NSCC has determined to suspend, decline or cease to act for the Clearing Member in respect of whose account such deposit was made, or, that NSCC has determined to prohibit or limit such Clearing Member's access to services; (2) OCC has directed that the exercise be settled otherwise than through NSCC; or (3) the deposit is subject to a "hold" instruction.

<sup>35</sup> Rule 610C(p) provides that such escrow deposit will be released by OCC on its own initiative at a specified time on the first business day following the expiration date unless (1) the Clearing Member carrying the short position is not in full compliance with its obligations to OCC or (2) the deposit is subject to a "hold" instruction.

<sup>36</sup> The proposed text in Rule 610A(c)(2) would mirror the amended text in Rule 610B(d)(2) with minor changes to remove or replace provisions associated with third-party specific deposits with member specific deposits.

intended to be clarifying in nature, as OCC currently releases member specific deposits in the same general manner as set out in Rule 610B(d)(2) for third-party specific deposits. Consistent with the change described above, automatic release would occur on the next business day following the expiration date for member specific, third-party specific and escrow deposits and would be set out in the Operations Manual. These changes are intended to ensure consistent language and practices to promote clarity for market participants. These changes are made in conjunction with the revisions to Rule 610C(o) and align with the goals of the T+1 Adopting Release to reduce central counterparty exposure to credit, market, and liquidity risk arising from its obligations to its participants, as there is no need for OCC to hold the collateral for an extended period of time.<sup>37</sup>

OCC further proposes revisions to Chapter XIV in relation to Treasury securities options. As U.S. Treasury securities commonly settle on a T+1 basis, OCC proposes to update the exercise settlement date for Treasury securities options from the second business day following the expiration date to the first business day in Rule 1402(a). Additionally, Clearing Members are required to notify OCC within a prescribed timeframe if a trade required to be completed pursuant to Rule 1403 has not been successfully matched at FICC.<sup>38</sup> Under Rule 1404, if OCC receives timely notice of a failure to match a trade, the affected Clearing Members are required to attempt to resolve the failure such that settlement could occur through FICC by the specified deadline on the second business day following the expiration date. If the failure is not resolved by such deadline, the Clearing Members are required to notify OCC within a specified time on the second business day following the expiration date. OCC also proposes to update these

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<sup>37</sup> See T+1 Adopting Release, *supra* note 7.

<sup>38</sup> Under Rule 1403, OCC requires every Treasury Securities Clearing Member to be a participant in the Government Securities Division (“GSD”) of FICC or designate a GSD participant as its representative to submit trade information into FICC’s real-time trade matching system.

references from the “second” business day to the “first” business day in Rule 1404.

Similar to the changes described above, these changes would promote consistency between OCC’s Rules and the settlement cycle for the relevant asset class.

### **Implementation Timeframe**

As discussed above, OCC would implement the proposed rule change in coordination with the Commission’s compliance date for the amendments to Rule 15c6-1(a) and the transition to T+1. OCC would provide notice to Clearing Members of the implementation through an Information Memorandum posted to its public website at least two (2) weeks prior to implementation.

#### (2) Statutory Basis

For the following reasons, OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>39</sup> and Rule 17Ad-22(e)(1)<sup>40</sup> thereunder. Section 17A(b)(3)(F) of the Act<sup>41</sup> 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, 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, and, in general, to protect investors and the public interest. OCC believes the proposed rule change is consistent with these requirements because it would coordinate the terms of certain provisions in OCC’s Rules, By-Laws, and Clearing Member documents with the Commission’s amendments to Rule 15c6-1(a) to support a T+1 standard settlement cycle. First, OCC proposes to remove provisions connected to late exercise that are impacted by a shortened settlement cycle. As discussed above, OCC would no longer accommodate late exercise notices due to operational challenges for same-day settlement and

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<sup>39</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>40</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>41</sup> 15 U.S.C. 78q-1(b)(3)(F).

limitations under the Accord. In OCC's view, this change does not represent a significant departure from OCC's current practices or the practices of other self-regulatory organizations. OCC would continue to maintain timeframes during which Clearing Members may submit exercise notices following the amendments. The proposed change is intended to preserve the successful and timely completion of exercise and assignment processes, which are important to the prompt and accurate settlement of securities transactions, following the transition to a T+1 settlement cycle.

OCC believes that the proposed changes to amend timeframes related to the standard settlement cycle are also consistent with Section 17A(b)(3)(F) of the Act.<sup>42</sup> Where a current OCC Rule, By-Law, or Clearing Member document is based upon or otherwise references the T+2 standard securities settlement cycle, the provision would be changed to support T+1. Harmonizing OCC's Rules, By-Laws, and Clearing Member documents with the new T+1 standard settlement cycle would remove impediments to and support the prompt and accurate clearance and settlement of securities transactions by, for example, ensuring that provisions in these documents that are related to T+1 are consistent with the rules concerning the standard settlement cycle that are maintained by the exchanges for which OCC clears and settles transactions and the rules of clearing agencies that provide clearance and settlement services for securities transactions that underlie physically-settled stock option and stock future contracts cleared by OCC. OCC believes that conforming its Rules, By-Laws, and Clearing Member documents to the new T+1 standard settlement cycle would also protect investors and the public interest by ensuring that OCC provides clearance and settlement services in a manner that supports the Commission's requirements for the T+1 standard settlement cycle.

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<sup>42</sup> Id.

Additionally, OCC believes that the proposed conforming and clarifying changes to its Rules are consistent with Section 17A(b)(3)(F) of the Act.<sup>43</sup> Automatic release would consistently occur on the next business day following the expiration date for member specific, third-party specific and escrow deposits and associated language would be set out in the Operations Manual, along with other timeframes and deadlines specified by OCC. As described above, the proposed changes would ensure consistent language and practices by OCC, including with respect to the settlement cycle for the relevant asset class and the automatic release of deposits, thereby promoting clarity and avoiding potential confusion for market participants, which would help support OCC's prompt and accurate clearance and settlement of securities transactions. For these reasons, the proposed changes are reasonably designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds in OCC's custody or control, and, in general, to protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.<sup>44</sup>

OCC believes the proposed changes are also consistent with the requirements in Rule 17Ad-22(e)(1) under the Act.<sup>45</sup> Rule 17Ad-22(e)(1) requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.<sup>46</sup> The changes are designed to modify OCC's Rules, By-Laws, and Clearing Member documents that would otherwise become outdated upon the change to the T+1 standard settlement cycle, or present other operational difficulties or concerns. The proposed changes would allow OCC to maintain provisions and practices that are both clear and

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<sup>43</sup> Id.

<sup>44</sup> Id.

<sup>45</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>46</sup> Id.

consistent with the standard settlement cycle that is specified in Rule 15c6-1(a), which would help ensure that OCC's Rules, By-Laws, and Clearing Member documents remain well-founded, clear, transparent, and enforceable. Additional changes are proposed to OCC's Rules that would amend an outdated provision and ensure consistency with the settlement cycle for the relevant asset class and regarding the automatic release of deposits, which would ensure that OCC's Rules are well-founded, clear, transparent, and enforceable. Therefore, OCC believes that the proposed changes promote compliance and consistency with the requirements in Rule 17Ad-22(e)(1) to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent and enforceable legal basis.

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

Section 17A(b)(3)(I) of the Act<sup>47</sup> 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 impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, OCC proposes amendments to its Rules, By-Laws, and Clearing Member documents to (i) revise provisions connected to late exercise that are impacted by a shortened settlement cycle, (ii) change timeframes related to the standard settlement cycle to reflect T+1, and (iii) make certain other conforming and clarifying changes. OCC does not believe that the proposed rule change would impose any burden or have any impact on competition. The proposed rule change would implement revisions that ensure consistency with amendments recently adopted by the Commission in Rule 15c6-1(a) to change the standard securities settlement cycle to T+1 and additional changes that promote clarity or uniformity amongst OCC's Rules, By-Laws, and Clearing Member documents, as described above. All Clearing Members would be equally subject

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<sup>47</sup> 15 U.S.C. 78q-1(b)(3)(I).

to the changes, and the proposed changes would not provide any Clearing Member with a competitive advantage over any other Clearing Member. This proposed rule change would also not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another. As a result, OCC believes the proposed rule change would not impact or impose a burden on competition.

(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 self-regulatory 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-OCC-2024-002 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Vanessa Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-OCC-2024-002. 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 the filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

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

All submissions should refer to file number SR-OCC-2024-002 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.<sup>48</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>48</sup> 17 CFR 200.30-3(a)(12).