



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104111; File No. SR-OCC-2025-018]

**Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change by The Options Clearing Corporation Concerning Methodology to Allocate Clearing Fund Deposit Requirements Among Its Clearing Members to Better Align the Allocation with The Sizing of The Clearing Fund so Stress Based Risk is Fairly Allotted to Market Participants That Expose OCC to Such Stress Risk**

September 26, 2025.

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 September 26, 2025, 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 allocate Clearing Fund deposit requirements in connection with its methodology among its Clearing Members to better align the allocation with the sizing of the Clearing Fund so that stress based risk is fairly allotted to those market participants that expose OCC to such stress risk. Specifically, the proposed

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

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

changes would: (1) modify OCC’s allocation weighting formula for allocating Clearing Fund Contribution requirements by introducing a 70% Clearing Fund risk-based shortfall allocation based on stress loss in excess of margin (the “shortfall”); changing the weighting percentages by reducing the margin allocation from 70% to 15%; removing the open interest component; extending the lookback period from 1-month to 3-months of data to align with the Clearing Fund size lookback; and reflect a new weighting scheme of 70% shortfall, 15% margin, and 15% cleared volume; (2) provide authority in the rules for OCC to hold constant allocation weights month-over-month in light of volatile market conditions; and (3) make other minor clarifying and conforming changes to the Clearing Fund Methodology Policy (“Policy”), and Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description (“Methodology Description”).

Proposed changes to the OCC Rules are filed as Exhibit 5A to File Number SR-OCC-2025-018. Proposed changes to the Methodology Description are filed as confidential Exhibit 5B to File Number SR-OCC-2025-018. Proposed changes to the Policy are filed as confidential Exhibit 5C to File Number SR-OCC-2025-018. Material proposed to be added to the Rules, Methodology Description, and Policy as currently in effect is marked by underlining and material proposed to be deleted is marked with strikethrough text. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the OCC By-Laws and Rules.<sup>3</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

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<sup>3</sup> 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>.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

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

OCC is the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission. OCC also clears certain stock loan and futures transactions. In its role as a clearing agency, OCC is the guarantor for all contracts cleared through OCC; that is, OCC becomes the buyer to every seller and the seller to every buyer (or the lender to every borrower and the borrower to every lender, in the case of stock loan transactions). As a central counterparty ("CCP"), OCC is exposed to certain risks because OCC is obligated to perform pursuant to its By-Laws and Rules even when one of its members defaults, including credit risk, which is the risk that OCC would not maintain sufficient financial resources to cover exposures.

OCC manages its credit risk through various safeguards to ensure that it has sufficient financial resources in the event of a Clearing Member failure. For example, OCC periodically collects margin collateral from its Clearing Members, which is designed to cover the credit exposures they individually present to OCC with a high degree of confidence. In order to ensure that OCC maintains sufficient qualifying liquid resources to manage its liquidity risk, and to address the tail risk that the margin collateral it collects from each Clearing Member might be insufficient to cover OCC's credit exposure to a defaulting member, OCC also maintains a Clearing Fund, which is a mutualized pool of financial resources to which each Clearing Member is required to contribute. OCC may borrow against or charge losses to the Clearing Fund under circumstances set forth in OCC's rules, including when managing a default of a Clearing Member. Subject to OCC's rules, non-defaulting Clearing Members would be obligated to replenish the Clearing Fund if OCC were to charge a loss to the Clearing Fund.

OCC rules also provide for how the Clearing Fund is sized and allocated amongst OCC's membership. With respect to sizing, OCC's rules require OCC to size the Clearing Fund monthly based on stress test scenarios that present extreme but plausible market conditions in order to ensure that: (i) OCC has sufficient pre-funded financial resources to withstand a default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure in such conditions;<sup>4</sup> and (ii) OCC has sufficient liquid resources to settle payment obligations under a wide range of foreseeable stress scenarios that include the default of the Clearing Member Group that would generate the largest aggregate payment obligation in such conditions.<sup>5</sup> However, the current allocation methodology does not include a component that takes into account the same stressed losses used to size the fund when determining each Clearing Member's required Clearing Fund deposit and creates inconsistency between the sizing and allocation across the membership. By including such a component in the allocation methodology OCC could distribute individual Clearing Fund requirements based on the directional stressed risk that Clearing Members present to OCC.

OCC proposes to modify this allocation methodology to align more closely with the methodology for sizing the Clearing Fund. The new methodology would primarily be driven by a Clearing Member's proportionate share of shortfalls (i.e., the estimated stress loss exposure in excess of margin requirements) and would be more aligned with the current sizing methodology because the same stressed scenarios used for sizing would be used to calculate the shortfalls. By aligning the allocation methodology with the stressed scenarios, the proposed allocation methodology would charge each Clearing Member more in proportion to the stress loss risk that its trading activity presents to OCC. As

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<sup>4</sup> See OCC Rule 1001(a).

<sup>5</sup> See, e.g., Exchange Act Release No. 89014 (June 4, 2020), 85 FR 35446 (June 10, 2020) (SR-OCC-2020-003) (approving OCC's Liquidity Risk Management Framework).

such, the new methodology would focus more on the risk that a Clearing Member introduces to OCC through stress scenarios, rather than the risk that OCC already collateralizes through collection of margin requirements.

The proposed rule change would also provide for an alternate allocation method for stressed market conditions in which shortfall may no longer be a reliable factor in allocating the Clearing Fund. OCC has observed that shortfalls generally decrease during periods of heightened volatility when margin coverage increases. In order to avoid significant changes to the Clearing Fund allocation month-over-month, the shortfall, total risk, and volume calculations would be performed using a three-month lookback. However, in the unlikely event that shortfalls decrease over a longer period of time due to a prolonged period of heightened volatility, OCC proposes to establish authority to hold constant the allocation from month-to-month as well as remove the hold constant provision until heightened market volatility conditions abate.

The impact to each Clearing Member's allocation under the proposed methodology would be dependent on the trading activity of that Clearing Member and based on their end-of-day positions. While the changes would not affect the overall size of the Clearing Fund, some Clearing Members would see their allocation increase while others would see their allocation decrease. The impact to Clearing Member allocations will be primarily driven by the directionality of their portfolios and the resulting stress exposures relative to other Clearing Members given the change is intended to incorporate a component of the allocation based on their share of such stress exposure. Clearing Members that have alignment in terms of direction across accounts or exposure to positions that are more reactive to stress scenarios, or a combination of both, will likely see increases. However, OCC believes that such increases or decreases would be commensurate with the stressed risk presented to OCC by each individual Clearing Member.

## 1. Purpose

### **Background**

#### Stressed Losses and the Clearing Fund Sizing Methodology

Under the Policy, OCC determines the size of its Clearing Fund based on the output of stress tests conducted using a range of foreseeable scenarios that utilize standard pre-determined parameters and assumptions. These stress tests are conducted daily and consider a range of stress scenarios with possible price changes that include: (1) relevant peak historic price volatilities; (2) shifts in other market factors including, as appropriate, priced determinants and yield curves; (3) the default of one or multiple members; (4) forward-looking stress scenarios.

As described in the Methodology Description, OCC leverages a suite of sizing stress tests broadly categorized into two types: “Systemic Scenarios” and “Idiosyncratic Scenarios.” Systemic Scenarios are created to capture risk to OCC in an extreme event impacting all positions mainly driven by risk drivers, while Idiosyncratic Scenarios are used to assess the impact of extreme moves of specific equities in a Clearing Member portfolio.

Systemic Scenarios include certain “Hypothetical Scenarios” that represent events in which market conditions change in ways that have not yet been observed. The Hypothetical Scenarios are derived using statistical methods (e.g., draws from estimated multivariate distributions) or created based on expert judgment (e.g., a 15% decline in market prices and 50% increase in volatility). These scenarios give OCC the ability to change the distribution and level of stress in ways necessary to produce an effective forward-looking stress testing methodology. OCC uses these pre-determined stress scenarios in stress tests, conducted daily, to determine OCC’s risk exposure to each Clearing Member Group by simulating the profits and losses of the positions in their respective account portfolios under each such stress scenario. Idiosyncratic Scenarios are

designed to capture the risks of extreme moves in individual or small subsets of securities. OCC shocks each single-name equity and evaluates the effects of such shocks on every Clearing Member Group portfolio, within which OCC identifies the four single-name equities for which such shocks would result in the largest losses.

From the combined set of scenarios used in the determination of the Clearing Fund size (“Sizing Scenarios”), which currently consist of Systemic and Idiosyncratic Scenarios, OCC selects the largest aggregate stress test exposures as the primary basis for sizing the Clearing Fund. Under the Policy and Methodology Description, OCC performs these stress test scenarios to establish the monthly size of the Clearing Fund necessary for OCC to maintain sufficient pre-funded financial resources to cover losses that could arise from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure in extreme but plausible market conditions as a result of a 1-in-80 year hypothetical market event.

#### Clearing Fund Allocation Methodology

Currently, OCC’s rules provide that Clearing Members are required to make Clearing Fund deposits comprised of a fixed amount of \$500,000 per Clearing Member and an amount that is a Clearing Member’s proportionate share of the remaining amount necessary to arrive at the total size of the Clearing Fund (“variable amount”) determined by a weighted average of the Clearing Member’s proportionate share of three other measures:

- (1) total risk: a risk measure aggregated across all accounts of a Clearing Member over the previous month determined using OCC’s margin methodology and such add-on charges as may be determined pursuant to OCC’s policies and procedures;
- (2) open interest: the daily average number of open interest in cleared contracts and stock loan and borrow positions during the previous calendar month; and

(3) volume: the daily average number of all cleared contracts and stock loan and borrow positions cleared by such Clearing Member during a look-back period determined by OCC from time to time.<sup>6</sup>

Each Clearing Member's proportionate share of the variable amount is determined using an allocation formula that apportions 70% from total risk, 15% from volume, and 15% from open interest. Each Clearing Member's margin requirement is calculated from all accounts held by the Clearing Member.

### **Proposed Changes**

OCC proposes to enhance its Clearing Fund allocation strategy by: (1) modifying OCC's allocation weighting formula; (2) providing authority in the rules for OCC to hold constant month-over-month allocation weights in light of volatile market conditions; and (3) other minor clarifying and conforming changes to the Methodology Description and Policy.

#### **1. Modification of OCC's Allocation Weighting Methodology**

OCC proposes to modify its methodology for allocating Clearing Fund requirements amongst its Clearing Members to focus on the stress loss in excess of margin (*i.e.*, "shortfall"). OCC believes it is appropriate to use the shortfall generated from running stress scenarios as a basis to calculate the Clearing Fund allocations because shortfall is a closer proxy to the risk borne by OCC from Clearing Members assuming a default in stressed market conditions, which are the conditions that the Clearing Fund is designed to address. Accordingly, OCC proposes to define "shortfall" under Rule 1003(b)(ii) to mean "an estimated stress loss exposure in excess of margin amounts aggregated across all accounts of a Clearing Member determined using the Corporation's margin methodology and such add-on charges as may be determined

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<sup>6</sup> See OCC Rule 1003(b)(iii).

pursuant to the Corporation’s policies and procedures.”<sup>7</sup> The Methodology Description would, in turn, provide that the Clearing Fund shortfall would be calculated and allocated from Sizing Scenarios (i.e., the 1-in-80 Rally, 1-in-80 Decline and Idiosyncratic Sizing scenarios).<sup>8</sup> OCC believes this approach better aligns the allocation of the Clearing Fund with the sizing of the Clearing Fund. OCC also proposes to make conforming changes to its Policy and Methodology Description to reflect the new definition of “shortfall.”

The new shortfall definition in Rule 1003(b)(ii) would replace the definition of “open interest,” which OCC would remove as an input to the allocation formula. OCC believes that removing the open interest component is consistent with the aim of making the allocation methodology more risk based. For the same reason, OCC previously reduced the weighting given to open interest in the allocation formula from 100% to 50%,<sup>9</sup> and then from 50% to 15%.<sup>10</sup> In each case, OCC determined that the change was appropriate to align the allocation methodology with the risks posed to OCC and the Commission found the proposed changes to be consistent with the Exchange Act.<sup>11</sup>

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<sup>7</sup> The shortfall component used in the allocation is based on the highest shortfall across all Sizing scenarios for that Clearing Member on a given business date and will be treated as zero in the event there are no shortfalls.

<sup>8</sup> In the event the size of the Clearing Fund was a result of the Sufficiency Buffer, shortfalls from Sufficiency scenarios would be considered as part of the Sizing Scenarios for the Clearing Member(s) within the Clearing Member Group(s) that triggered the sizing condition. The term “Sufficiency Buffer” is the condition that occurs if the results of a daily Sufficiency Stress Test over the final five business days preceding the monthly Clearing Fund sizing exceed 90% of the projected Clearing Fund size for the upcoming month, the Clearing Fund size shall be set such that the peak Sufficiency Stress Test shortfall is no greater than 90% of the Clearing Fund size.

<sup>9</sup> See Exchange Act Release No. 69403 (Apr. 18, 2013), 78 FR 24257 (Apr. 24, 2013) (SR-OCC-2013-02).

<sup>10</sup> See Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855, 37859 (Aug. 2, 2018) (SR-OCC-2018-008).

<sup>11</sup> See id. at 37863 (concluding that the change would “allow OCC to better manage its credit exposures to its clearing members by better aligning each clearing member’s contributions to the credit risk it poses to OCC”); Exchange Act Release No. 69403, 78 FR at 24258 (concluding that the change would “enhanc[e] the Clearing Fund allocation methodology by incorporating measures that OCC believes will apportion contributions based on more sophisticated measurements of Clearing Members’ usage of OCC’s facilities and recognize demands on OCC’s services and facilities that are not captured by the current methodology”).

Under proposed amendments to Rule 1003(b), the new shortfall factor would receive a 70% weighting in calculating a Clearing Member's proportionate share of the variable amount. OCC also proposes to change the weighting formula to allocate the remaining weight of 30%. Total risk, which would be re-titled "margin" for clarity,<sup>12</sup> would remain a factor in the allocation, but would be reduced to 15%. OCC believes that maintaining the margin component is appropriate as margin evaluates risk using a different monte carlo based model and therefore can capture a different risk profile from stress testing. This reflects a decrease from OCC's current 70% allocation weighting for the margin component of a Clearing Member's Clearing Fund allocation. OCC believes that reducing the allocation to this level would be consistent with the aim of aligning the allocation of the Clearing Fund with the sizing of the Clearing Fund. OCC also proposes to keep the cleared volume allocation at the 15% threshold, which is not changed from OCC's current allocation methodology. OCC believes that maintaining the volume threshold at the same level would be appropriate to ensure that Clearing Member participants with intra-day trading activities receive an allocation of the Clearing Fund even when their holdings overnight reflect flat positions.<sup>13</sup> The proposed allocation methodology would result in a formula that distributes Clearing member contributions according to the following proportions: 70% shortfall, 15% margin, and 15% cleared volume. OCC believes, based on its analysis of different allocation weightings,<sup>14</sup> that this specific allocation scheme generates a balance between the various risks captured by each component and would align the Clearing Fund allocation with the exposure driving the

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<sup>12</sup> Specifically, using the term "margin" rather than "total risk" provides better clarity as to the metric upon which the factor is based.

<sup>13</sup> Overnight positions maybe flat for certain Clearing Member participants because holdings in their portfolio may net to zero from intra-day trading activities i.e., entering, existing, or transferring trades during the day.

<sup>14</sup> OCC has included the results of this analysis in confidential Exhibit 3 to File No. SR-OCC-2025-018.

size of the Clearing Fund. The proposed allocation scheme creates alignment between the process to size the Clearing Fund and the process to allocate the Clearing Fund, as the same set of stress scenarios used to calculate the shortfalls will be used as input to the allocation scheme. Margin evaluates risk based on a different model than stress testing and therefore can capture different risk profiles than shortfall. Volume keeps in place a means to allocate a portion of the Clearing Fund based on trading activity that occurs throughout the day, which shortfall and margin do not currently capture as they utilize data as of EOD.

OCC also proposes to adopt a longer lookback period for all three measures, from a one-month lookback for the current total risk measure to a three-month lookback for shortfall, margin and cleared volume. A three-month lookback aligns with the parameters used in the sizing of the Clearing Fund and mitigates the impact of significant changes in margin shortfalls driven by periods of elevated margin coverage.

Accordingly, OCC proposes to replace the lookback periods in the definitions section under Rules 1003(b)(i), (ii) and (iii) to three (3) calendar months. OCC also proposes to make conforming changes to reflect this change in its Policy and Methodology Description.

With respect to the impact of the proposal on the Clearing Fund allocations, OCC has reviewed the potential impact of the proposal on Clearing Fund allocations, for the period between May 2024 and May 2025 and also for April 2020, a time horizon that reflected a monthly resizing during a stressed market period.<sup>15</sup> OCC has observed that overall, the proposed approach allocates the Clearing Fund in a more distributed fashion within the top 10 Clearing Members (as measured by highest Clearing Fund contribution amounts) with some members experiencing larger changes relative to other Clearing

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<sup>15</sup> See supra note 14.

Members, but, as noted above, the effects of the proposal would be primarily attributed to the directionality of Clearing Member portfolios and the resulting stress exposures. As a result, some Clearing Members will see their Clearing Fund requirement increase, while others will see it decrease with significant and pronounced variations across members. Generally, Clearing Members that have aligned directional exposure across accounts or exposure to positions that are more sensitive to stress events, or a combination of both, could see an increase from this proposal but it is portfolio-dependent and also a function of how the Clearing Members compare to other Clearing Members. The impact of the proposal on OCC's top 5, top 10, and remaining Clearing Members over the past four quarters spanning third quarter 2024 through second quarter 2025,<sup>16</sup> shown as averages, is presented in the tables below:

**Table 1 – Change in Clearing Fund Contribution Percentages for the Top 10 Clearing Member Contributors**

	<u>Current Production</u>	<u>Proposal</u>	<u>Change</u>
Q3 2024	66.06%	66.79%	0.73%
Q4 2024	65.57%	66.90%	1.33%
Q1 2025	65.40%	66.97%	1.58%
Q2 2025	65.65%	67.13%	1.48%

**Table 2 – Change in Clearing Fund Contribution Percentages for the Top 5 Clearing Member Contributors**

	<u>Current Production</u>	<u>Proposal</u>	<u>Change</u>
Q3 2024	48.07%	45.42%	-2.65%
Q4 2024	47.32%	44.66%	-2.66%
Q1 2025	47.39%	44.77%	-2.63%
Q2 2025	47.05%	44.29%	-2.76%

<sup>16</sup> The average Clearing Fund size during this period was \$19.51 billion.

**Table 3 – Change in Clearing Fund Contribution Percentages for Members  
Excluding the Top 10 Clearing Member Contributors**

	<u><b>Current Production</b></u>	<u><b>Proposal</b></u>	<u><b>Change</b></u>
Q3 2024	33.94%	33.21%	-0.73%
Q4 2024	34.43%	33.10%	-1.33%
Q1 2025	34.60%	33.03%	-1.58%
Q2 2025	34.35%	32.87%	-1.48%

From Tables 1 and 2, above, OCC observed that, on average, the top 10 Clearing Members would have experienced a 1.28% increase in their Clearing Fund contributions, while the top 5 Clearing Members would have seen a 2.67% decrease in Clearing Fund contributions over the four quarters referenced. In contrast, in Table 3, which presents the effects on the remaining members, excluding the top 10 Clearing Fund contributors, OCC observed a 1.28% decrease in contributions to the Clearing Fund, indicating that the proposed rule change would have allocated a greater portion of the Clearing Fund contribution requirement toward the larger, top 10 contributing members. However, OCC has also observed that there were substantial variations in the range and distribution of relative change between individual contributions spread across members within each category.<sup>17</sup>

## **2. Authority to Hold Constant Allocation Weights**

OCC proposes to expand its authority under the Rules to hold constant month-over-month Clearing Member allocations during stressed market conditions. When markets are highly volatile during periods of market stress, elevated margin coverage

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<sup>17</sup> This applies to members within all three categories presented in Table 1,2, and 3.

becomes more commonplace and consequently may reduce or even eliminate Clearing Fund shortfalls because of elevated margin requirements. Such reductions in shortfalls could cause the resulting Clearing Fund allocation to change dramatically month-over-month. In the first instance, OCC would address this risk through the three-month lookback discussed above, which would help to smooth month-over-month changes.<sup>18</sup> Based on its analysis of the potential impact of the current proposal, OCC believes that the proposed three-month lookback would have been sufficient without further intervention in recent periods of elevated stress, for example as observed in March 2020.<sup>19</sup> However, in the unlikely event that high volatility and reduced shortfalls persisted, OCC believes it is possible the extended lookback alone may not be sufficient even though that has not been observed in the impact data produced. As a result, the proposed rules include authority for OCC to hold all Clearing Members' proportionate shares of the variable amount constant month-over-month.<sup>20</sup>

Specifically, proposed Rule 1003(c) would provide that OCC, at its sole discretion, may elect to hold constant month-over-month Clearing Members' proportionate shares calculated under Rule 1003(b) and the Corporation's policies and procedures. Rule 1003(c) would further provide that any such election would (i) be based upon then-existing facts and circumstances, (ii) be in furtherance of the integrity of OCC and the stability of the financial system, and (iii) take into consideration the legitimate interests of Clearing Members and market participants. OCC believes this

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<sup>18</sup> OCC proposes to extend the lookback from one to three months to smooth out the effects of high volatility during periods when elevated margin coverage may reduce or even eliminate shortfalls. Using a one-month lookback during such periods can cause Clearing Fund allocations to fluctuate dramatically month-over-month.

<sup>19</sup> See *supra* note 14.

<sup>20</sup> For the avoidance of doubt, the variable amount, which is dependent on the size of the Clearing Fund, would not be held constant under this authority. Rather, OCC would hold constant the proportionate allocation of the variable amount across the membership.

authority is consistent with its existing authority to temporarily increase the Clearing Fund size<sup>21</sup> and the Clearing Fund Cash Requirement.<sup>22</sup>

Proposed amendments to the Policy would provide that OCC would exercise this authority by conducting daily risk analysis to monitor the results of the Cover 2<sup>23</sup> Sizing Stress Tests and escalate to the Chair of the Stress Testing Working Group (“STWG”),<sup>24</sup> or the Chief Financial Risk Officer, that an STWG meeting be convened to review and approve or reject a recommendation to hold constant month-over-month the proportionate share of the variable amount of the Clearing Fund for all firms. The Policy would be revised to state that any recommendation to hold allocations constant would be supported by an analysis of the impact to stress exposures from margin coverages changes and the resulting Clearing Fund allocation projections.<sup>25</sup> OCC believes the STWG is the appropriate OCC internal governing body to approve or reject such recommendation given the authority the Management Committee has delegated to it as the subject matter expert on OCC’s financial risk and liquidity risk stress-testing scenarios, models, underlying parameters and assumptions, and stress test results. In addition, OCC proposes to append “Monthly” to the section heading that deals with allocations to read as “Allocation of Monthly Clearing Fund Contributions” and reflect within the section the authority to hold constant month-over-month the allocation proportions or revert to

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<sup>21</sup> See OCC Rule 1001(d).

<sup>22</sup> See OCC Rule 1002(a)(i)(A).

<sup>23</sup> The term “Cover 2” refers to sufficient Pre-Funded Financial Resources, at a minimum, to enable OCC to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure in extreme but plausible market conditions.

<sup>24</sup> The STWG is a cross-functional group comprised of representatives from relevant OCC business units, including Stress Test and Liquidity Risk Management, Credit Risk Management, and Model Risk Management.

<sup>25</sup> The analysis may include additional information such as the percentage of firms generating shortfalls, the size of peak shortfalls relative to the Clearing Fund size, a comparison of Clearing Fund allocation projections versus current requirements as well as a breakdown of the allocation projections by component.

the proposed allocation calculation formula, by inserting a new paragraph stating “[s]ubject to the prior approval of the STWG on recommendation from STLRM, OCC may hold the proportionate share of the variable amount constant month-over-month or revert to the proportionate approach, described in Rule 1003.” Lastly, within the same section a new separate paragraph will be inserted that states that “[t]he Risk Committee and Clearing Members shall be notified immediately of any determination to hold constant allocations or the reversion to the proportionate approach, described in Rule 1003. Such determination and the reasons thereof shall be promptly reported to the SEC and the CFTC.”

### **Other Clarifying and Conforming Changes**

Finally, OCC proposes several additional clarifying and conforming changes to the Rules, Policy, and Methodology Description to align with the proposed changes to the Clearing Fund methodology. These supporting changes are described below.

#### Proposed Changes to the Allocation of Clearing Fund Contributions Description

OCC proposes a number of changes to its Methodology Description to reflect the proposed changes and describe the proposed allocation formula. For example, the Methodology Description would be revised to reflect the updated Rule 1003 text changes, which includes introduction of the shortfall, removal of the open interest, the extension of the lookback period to three months, and incorporation of the new proposed weightings for the Clearing Fund Allocation formula. In addition, the proposed changes would add a paragraph reflecting the proposed Rule 1003(c) text. In addition, certain definitions within the Methodology Description referring to the OCC’s current Clearing Fund allocation, including “daily averages,” “Risk Exposure,” and “Open Interest” will be removed. Additional clarifying text such as “Cleared” will also be appended before “Volume” to ensure greater clarity regarding the definition of “Cleared Volume.”

### Proposed Changes to the Policy

OCC proposes a number of changes to its Policy to reflect the proposed changes. First, all references to “Draw” or “Draws” in the document will be replaced with “shortfall” or “shortfalls,” respectively. In a similar fashion to the Methodology Description, the Policy will be revised to reflect the updated Rule 1003 text changes, that includes introduction of the “shortfall,” removal of the “open interest,” update to the lookback period to three months, and incorporation of the new proposed weightings for the Clearing Fund Allocation formula. In addition, the proposed changes would add a paragraph reflecting the proposed Rule 1003(c) text.

### Proposed Changes to the Rules

To enhance clarity and eliminate potential confusion, OCC proposes to remove all references to an implementation period from Rule 1003. Specifically, OCC proposes to delete Interpretation and Policy .03 of Rule 1003 in its entirety from OCC’s Rules, as this section contains the implementation period provisions that are no longer necessary.

### **Clearing Member Outreach**

OCC has provided an overview of the proposed changes to the Financial Risk Advisory Council (“FRAC”), informing Clearing Members of the proposed changes. The FRAC is a working group comprised of exchanges, Clearing Members, and indirect participants of OCC. OCC has not received any material objections or concerns in response to this outreach to date.

### **Implementation Timing**

OCC will implement the proposed changes within 180 days after the date OCC receives all necessary regulatory approvals for the proposed changes. OCC will announce the implementation date of the proposed changes by posting an Information Memorandum on its public website at least two (2) weeks prior to implementation.

## 2. Statutory Basis

OCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Exchange Act,<sup>26</sup> and Rule 17ad-22(e)(4)<sup>27</sup> and Rule 17ad-22(e)(2)<sup>28</sup> thereunder.

Section 17A(b)(3)(F) of the Act<sup>29</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 and derivatives transactions, to assure the safeguarding of securities and funds which are in its custody or control, and in general, to protect investors and the public interest. Taken together, OCC believes the proposed changes are designed to enhance OCC's overall framework for managing credit and liquidity risks and are consistent and in accordance with Section 17A(b)(3)(F) of the Act<sup>30</sup> for the reasons set forth below.

OCC's mutualized Clearing Fund is designed, in part, to cover default losses arising from Clearing Member defaults during stressed market conditions. As described above, the proposed rule change would enhance OCC's framework for managing its credit risk by revising the Clearing Fund allocation scheme to include a shortfall component that represents the aggregate stress losses in excess of margin. In a Clearing Member default, a Clearing Member's Clearing Fund contribution would be the first to be utilized to cover any losses before any other mutualized resource. The use of shortfall in the allocation scheme aligns OCC's credit exposure to that Clearing Member by ensuring its Clearing Fund requirements are commensurate with the risk presented to OCC, thereby helping to ensure that OCC can continue to effect the prompt and accurate

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<sup>26</sup> 15 U.S.C. 78q-1(b)(3)(F)

<sup>27</sup> 17 CFR 240.17ad-22(e)(4).

<sup>28</sup> 17 CFR 240.17ad-22(e)(2).

<sup>29</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>30</sup> Id.

clearance and settlement of securities and derivatives transactions. The proposed changes to the component allocation weights in its Clearing Fund allocation scheme produces Clearing Member allocations better aligned with the same stress scenarios used to size the Clearing Fund, which OCC believes is reasonably designed to enhance OCC's framework for managing credit risk because it would result in more proportionate and accountable Clearing Fund allocations and generate contribution requirements that are commensurate to the risks borne by OCC from its Clearing Members. OCC believes these changes would help to reduce risky behavior that may arise through risk mutualization and incentivize participants to better manage their risk by charging more to Clearing Members who introduce such stressed risk, thereby supporting the public interest. In addition, OCC would use the Clearing Fund deposit along with the margin of a defaulting Clearing Member to manage a default ahead of other resources under OCC's default waterfall, including the Clearing Fund deposits of non-defaulting Clearing Members.<sup>31</sup> By allocating more to a Clearing Member that is introducing higher stressed risk, more resources ahead of risk mutualization would be available in the event of that Clearing Member's default, thereby helping to safeguard the Clearing Fund deposits of non-defaulting Clearing Members. OCC therefore believes these changes are designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions, assure the safeguarding of securities and funds which are in its custody or control and, in general, protect investors and the public interest consistent with Section 17A(b)(3)(F) of the Act.<sup>32</sup>

OCC also believes the proposed revisions to its Rules, Policy, and Methodology Description to update the lookback period to three months for all components of the Clearing Fund allocation scheme and to allow OCC to hold constant the allocations

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<sup>31</sup> See OCC Rule 1006(b).

<sup>32</sup> 15 U.S.C. 78q-1(b)(3)(F).

month-over-month are designed, in general, to protect investors and the public interest. The proposed changes are anti-procyclical measures for periods of elevated market volatility during which Clearing Members may maintain higher margin levels that may cause shortfalls for the majority of market participants to fall to zero. The extended lookback and authority under Rule 1003(c) would help ensure that OCC's Clearing Fund allocations would be smoother month-over-month ensuring that significant fluctuations in Clearing Fund allocations are avoided, particularly during periods of stressed market conditions in which Clearing Members may maintain elevated margin coverage levels and their ability to meet additional liquidity demands may be strained. A three-month lookback would smooth out the impact to Clearing Members of high volatility periods reducing the dramatic fluctuations experienced from using a shorter 1-month lookback. As such, OCC believes that these changes reduce systemic risk, and are thereby designed to help ensure OCC can continue to provide prompt and accurate clearance and settlement of securities and derivatives transactions, and in general protect investors and the public interest consistent with Section 17A(b)(3)(F) of the Act.<sup>33</sup>

OCC also believes the proposed changes are consistent with Rules 17ad-22(e)(4),<sup>34</sup> which requires that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes including by, in part, maintaining financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the participant family that would potentially cause the largest aggregate credit exposure for

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<sup>33</sup> Id.

<sup>34</sup> 17 CFR 240.17ad-22(e)(4).

the covered clearing agency in extreme but plausible market conditions,<sup>35</sup> and do so exclusive of assessments for additional guaranty fund contributions or other resources that are not prefunded.<sup>36</sup> OCC complies with these obligations by maintaining a prefunded Clearing Fund that is sized to cover potential losses resulting from the default of its two largest Clearing Member Groups in stressed market conditions. With respect to the use of Clearing Funds and adherence to the requirements of Rule 17ad-22(e)(4),<sup>37</sup> the Commission has noted that, to the extent that a clearing agency uses guaranty or clearing fund contributions to mutualize risk across participants, clearing agencies generally should value margin and guaranty fund contributions so that the contributions are commensurate to the risks posed by the participants' activities.<sup>38</sup> OCC believes that by utilizing the same stressed scenarios used to size the Clearing Fund, the proposed allocation methodology would provide for Clearing Fund contribution requirements commensurate to the risks posed by each Clearing Member. As a result, OCC believes the proposed changes are reasonably designed to comply with the requirements of Rule 17ad-22(e)(4).<sup>39</sup>

Finally, OCC believes the proposed changes are consistent with Rule 17ad-22(e)(2)(i),<sup>40</sup> which requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for governance arrangements that, in relevant part, are clear and transparent. As discussed above, OCC believes that by establishing authority to hold allocations constant month-over-month in extraordinary circumstances in its rules, and making clarifying,

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<sup>35</sup> 17 CFR 240.17ad-22(e)(4)(iii).

<sup>36</sup> 17 CFR 240.17ad-22(e)(4)(iv).

<sup>37</sup> 17 CFR 240.17ad-22(e)(4).

<sup>38</sup> See Exchange Act Release No. 78961 (Sept. 28, 2016), 81 FR 70786, 70813 (Oct. 13, 2016) (S7-03-14) (“Standards for Covered Clearing Agencies”).

<sup>39</sup> 17 CFR 240.17ad-22(e)(4).

<sup>40</sup> 17 CFR 240.17ad-22(e)(2)(i).

organizational, and streamlining changes elsewhere in its policies and procedures, it would improve the clarity of its rules and policies and therefore the proposed changes would be consistent with Rule 17ad-22(e)(2)(i).<sup>41</sup>

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

Section 17A(b)(3)(I) of the Act<sup>42</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. While the proposed rule change may impact Clearing Members to a greater or lesser degree depending on each Clearing Member's trading activity, OCC does not believe that the proposed rule change would impose any burden of competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

The proposed changes relate to risk management modifications designed to shift the allocation from margin to stress shortfall. As discussed above, the current Clearing Fund distribution scheme utilizes margin as the main driver to allocate individual Clearing Member contributions, which may not adequately reflect the risk presented by individual Clearing Members in a default in stressed market conditions. In such scenarios, OCC believes that the shortfall is a closer proxy to the risk borne by OCC to be used as a basis to calculate Clearing Fund allocations, notwithstanding that margin and volume would remain factors with smaller weightings. The proposed changes would ensure contribution requirements would be apportioned to Clearing Members based on each Clearing Member's share of the overall shortfall relative to margin. Moreover, the proposed rule change would be applied uniformly to all Clearing Members, but as noted above, the sizing of the Clearing Fund would not be affected. In addition, as indicated by OCC's impact analysis, the proposal's effects vary across all members under both normal and stressed market conditions. As shown above in Tables 1, 2, and 3, some Clearing

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<sup>41</sup> Id.

<sup>42</sup> 15 U.S.C. 78q-1(b)(3)(I).

Members would see their Clearing Fund requirement increase, while others will see it decrease. Individual impacts would depend on a variety of factors, including but not limited to, the directionality of exposure across accounts within a Clearing Member, exposure to positions that are more sensitive to stress scenarios, and stress exposures relative to other Clearing Members.

OCC believes these changes are necessary and appropriate requiring those Clearing Members that present elevated levels of stress-based risk to contribute more to the Clearing Fund and thereby incentivize those firms to better manage and reduce the risk attributed to their trading activities. Accordingly, OCC believes that the proposed rule change would not impose any burden or impact on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

(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 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-OCC-2025-018 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-2025-018. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of such filing will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

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

All submissions should refer to File Number SR-OCC-2025-018 and should be submitted on or before [INSERT DATE 21 DAYS AFTER PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>43</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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