DCO Rules

UNITED STATES
COMMODITY FUTURES TRADING COMMISSION

Submitter Information

Organization Name
Options Clearing Corporation

Organization Type	**Organization Acronym**
DCO	OCC
Submitted By	**Email Address**
[redacted]	[redacted]

Cover Sheet

Submission Number	**Submission Date**
2505-0114-5423-46	5/1/2025 2:54:23 PM ET

Submission Type
40.6(a) Rule Certification

Submission Description
Rule Certification by The Options Clearing Corporation Concerning Establishing a Margin Add-on Charge Applied to Clearing member Accounts to Mitigate the Risks Arising from Intraday and Overnight Trading Activity.

☑ **Request Confidential Treatment**

Registered Entity Identifier Code

Rule Numbers
Rule 601, and Margin Policy.

Date of Intended Implementation
5/15/2025

Documents

Exhibit A - Rules.pdf
Exhibit B - Margin Policy [CONFIDENTIAL].pdf (Confidential Treatment Requested)
CFTC Self-Certification (Intraday Margins Phase 3).pdf

Request For Confidential Treatment - Detailed Written Justification

CFTC Confidential Treatment Request (Intraday Margins Phase 3).pdf

THE FOUNDATION FOR SECURE MARKETS

Options Clearing Corporation
125. S. Franklin Street, Suite 1200
Chicago, IL 60606
312 322 6200 | theocc.com

May 1, 2025

VIA CFTC PORTAL
Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Certification by The Options Clearing Corporation Concerning Establishing a Margin Add-on Charge Applied to Clearing member Accounts to Mitigate the Risks Arising from Intraday and Overnight Trading Activity

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and Commodity Futures Trading Commission ("CFTC") Regulation 40.6, The Options Clearing Corporation ("OCC") hereby certifies a rule change concerning Establishing a Margin Add-on Charge Applied to Clearing Member Accounts to Mitigate the Risks Arising from Intraday and Overnight Trading Activity. The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal has also been submitted to and has been approved by the Securities and Exchange Commission ("SEC") under Section 19(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 19b-4 thereunder.[1] The change will not be implemented until OCC has obtained all necessary regulatory approvals.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

Explanation and Analysis

The purpose of this rule certification is to establish a margin add-on charge that would be applied to all Clearing Member accounts to help mitigate the risks arising from intraday and overnight trading activity. OCC also intends to conform its rules to the SEC's final rule[2] amending the Covered Clearing Agency ("CCA") Standards concerning intraday margin calls.

Proposed changes to OCC's Rules are contained in Exhibit A. Proposed changes to OCC's Margin Policy are contained in confidential Exhibit B. Material proposed to be added is marked by

1 See Exchange Act Release No. 102768 (Apr. 3, 2025), 90 FR 15274 (Apr. 9, 2025) (File No. SR-OCC-2024-010).

2 See Exchange Act Release No. 101446 (Oct. 25, 2024), 89 FR 91000 (Nov 18, 2024) (File No. S7-10-23).

underlining and material proposed to be deleted is marked with strikethrough text. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the OCC By-Laws and Rules. [3]

Overview

OCC is the sole clearing agency for standardized equity options listed on national securities exchanges registered with the SEC. OCC also clears stock loan and futures transactions. In its role as a clearing agency, OCC guarantees the performance of its Clearing Members for all transactions cleared by OCC by becoming the buyer to every seller and the seller to every buyer (or the lender to every borrower and the borrower to every lender, in the case of stock loan transactions). These clearing activities could expose OCC to financial risks if a Clearing Member fails to fulfil its obligations to OCC. In its role as guarantor for all transactions cleared through OCC, one of the more material risks related to a Clearing Member's failure to perform is credit risk arising from the activity of the Clearing Members whose performance OCC guarantees. OCC manages these financial risks through financial safeguards, including the collection of margin collateral from Clearing Members designed to, among other things, address the market risk associated with a Clearing Member's positions during the period of time OCC has determined it would take to liquidate those positions.

At the start of each business day, OCC collects margin requirements for each marginable account calculated by OCC's proprietary System for Theoretical Analysis and Numerical Simulation ("STANS") based on the account's end-of-day positions from the previous business day.[4] OCC also makes intraday margin calls in defined circumstances. For example, pursuant to OCC Rule 609 and OCC's Margin Policy, which has been filed with and approved as a rule by the SEC,[5] OCC requires the deposit of intraday margin to reflect changes in the value of securities deposited by the Clearing Member as margin when certain defined thresholds are breached.[6] OCC also issues intraday margin

---

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

4 OCC makes its STANS Methodology Description available to Clearing Members. An overview of the STANs methodology is posted to OCC's public website: https://www.theocc.com/Risk-Management/Margin-Methodology.

5 See Exchange Act Release Nos. 100998 (Sept. 11, 2024), 89 FR 76171 (Sept. 17, 2024) (SR-OCC-2024-009); 99169 (Dec. 14, 2023), 88 FR 88163 (Dec. 20, 2023) (SR-OCC-2023-008); 98101 (Aug. 10, 2023), 88 FR 55775 (Aug. 16, 2023) (SR-OCC-2022-012); 96566 (Dec. 22, 2022), 87 FR 80207 (Dec. 29, 2022) (SR-OCC-2022-010); 91079 (Feb. 8, 2021), 86 FR 9410 (Feb. 12, 2021) (SR-OCC-2020-016); 90797 (Dec. 23, 2020), 85 FR 86592 (Dec. 30, 2020) (SR-OCC-2020-014); 87718 (Dec. 11, 2019), 84 FR 68992 (Dec. 17, 2019) (SR-OCC-2019-010); 86436 (July 23, 2019), 84 FR 36632 (July 29, 2019) (SR-OCC-2019-006); 86119 (June 17, 2019), 84 FR 29267 (June 21, 2019) (SR-OCC-2019-004); 83799 (Aug. 8, 2018), 83 FR 40379 (Aug. 14, 2018) (SR-OCC-2018-010); 82658 (Feb. 7, 2018), 83 FR 6646 (Feb. 14, 2018) (SR-OCC-2017-007).

6 See OCC Rule 609(a) ("[OCC] may require the deposit of additional margin ('intra-day margin') by any Clearing Member in any account at any time during any business day to reflect changes in: . . . (3) the value of securities deposited by the Clearing Member as margin . . . ."); Exchange Act Release No. 82658, supra note 5,

calls when unrealized losses observed for an account based on positions from extended trading hours ("ETH")[7] exceed certain thresholds.[8] In addition, OCC maintains broad authority under OCC Rule 609 to issue intraday margin calls or otherwise set a Clearing Member's margin requirement in other circumstances, including as a protective measure pursuant to Rule 307.[9]

Since the time these existing margin collection processes were established, OCC has observed a significant increase in contract volume and, in particular, volume in option contracts traded on the day of their expiration—so-called "zero-days-to-expiration" or "0DTE" options. Currently, 0DTE option trading volume can spike to up to 40% of total trading volume on Friday expirations.[10] This increase in 0DTE options trading has coincided with the proliferation of option expiries. Traditionally, listed options expired on the third Friday of the month.[11] In 2005, the Chicago Board Options Exchange ("Cboe"), one of the participant exchanges for which OCC provides clearance and settlement services, began listing weekly options on the S&P 500 Index ("SPX") expiring each Friday of the month, and subsequently introduced Monday and Wednesday weekly SPX expirations in 2016 before adding Tuesday and Thursday weekly SPX expirations in 2022.[12] Weekly and daily expiration cycles were introduced to options on other indexes, single-name stocks, and exchange traded products (e.g., ETFs). As a result, options now expire every trading day of the year.

The increase in 0DTE options trading combined with increased intraday trading activity across other products poses challenges to OCC's risk management, particularly with respect to the management of OCC's overnight and intraday risk exposure to its Clearing Members in between the collections of margin at the start of each business day. Because OCC's STANS margin calculation is based on end-of-day positions, the margin requirement may not account for 0DTE options trading

83 FR at 6648 ("Pursuant to the Margin Policy, OCC issues margin calls during standard trading hours when unrealized losses exceeding 50% of an account's total risk charges are observed for that account based on start-of-day positions.").

7 ETH refers to trades executed in extended and overnight trading sessions offered by exchanges for which OCC provides clearance and settlement services. See Exchange Act Release No. 73343 (Oct. 14, 2014), 79 FR 62684 (Oct. 20, 2014) (SR-OCC-2014-805).

8 See Exchange Act Release No. 82355 (Dec. 19, 2017), 82 FR 61060, 61064 (Dec. 26, 2017) (SR-OCC-2017-007) (codifying in the Margin Policy the ETH intraday margin call OCC would issue prior to 9:00 a.m. Central Time when: (1) unrealized losses observed for an account, based on new ETH positions, exceed 25% of that account's total risk charges and (2) the overall Clearing Member portfolio is also experiencing losses).

9 See OCC Rule 307C(b) (providing for protective measures in the form of requiring Clearing Members to adjust the amount or composition of margin, including but not limited to requiring the deposit of additional margin).

10 Id. at 3-4.

11 Originally, options expiries occurred on the Saturday following the third Friday before the industry moved to Friday expirations in 2013. See Exchange Act Release No. 69772 (June 17, 2013), 78 FR 37645 (June 21, 2013) (File No. SR-OCC-2013-04).

12 See Cboe, The Rise of SPX & 0DTE Options, at 5 (July 27, 2023), available at https://go.cboe.com/l/77532/2023-07-27/ffc83k.

activity, since the Clearing Member would have either traded out of or exercised the options position, or the option would have expired by the end of the day. Similarly, in the current system the risk increase from intraday trading activity across other products would only be captured once end-of-day positions are established, which when margin calculations are applied would not account for the intraday risk increase from any positions that were traded out of. In addition, OCC's portfolio revaluation process for purposes of determining intraday margin calls to address the change in value of margin collateral is based on a Clearing Member's start-of-day collateral deposits, which would not include margin for 0DTE options or intraday positions. For these reasons OCC proposes to establish the Intraday Risk Charge add-on to capture such risk increases, and the associated Intraday Monitoring Thresholds regime to observe and measure risk increasing activity.

<u>Proposed Changes</u>

1. **Intraday Risk Charge Add-On**

OCC proposes to establish a margin add-on charge (the "Intraday Risk Charge"), which would be calculated using the system currently employed to monitor Clearing Members' overnight trading activity. Through OCC's Watch Level surveillance under its Third-Party Risk Management Framework, OCC has also used this system to identify patterns of risk increasing activity in 0DTE options for purposes of considering and calculating protective measures in the form of additional margin for particular Clearing Members when certain thresholds have been breached relative to a Clearing Member's net capital. OCC proposes to extend that approach to all Clearing Members (without regard to net capital thresholds) and with respect to all products OCC clears.

OCC's current intraday margin system recalculates the STANS margin risk using portfolio position sets updated every 20 minutes between 8:30 a.m. and 6:30 p.m. Central Time, and at-least every hour during ETH sessions. OCC considers that 20 minutes is sufficient time under OCC's current system capabilities to provide consistent and reliable snapshot results at a steady cadence during regular trading hours with heavy trading activity. Outside of regular trading hours and during overnight trading, hourly intervals between snapshots were deemed more appropriate because of the significantly lower trading activity. OCC currently employs and will continue to use the intraday margin system for ETH monitoring, including to determine when to issue an ETH margin call.[13] This system calculates a forecasted margin requirement as if the positions at that point in time were present during the previous night's margin calculation. Results that show an increase to the prior night's margin requirement based on the STANS expected shortfall and stress test components are considered risk increasing. OCC would use the outputs from the previous night's daily STANS methodology calculation, incorporating current portfolio changes, to monitor that day's peak intraday risk increases.

---

[13] <u>See</u> Exchange Act Release No. 74268, <u>infra</u> Table 1 note b, 80 FR at 8919 (describing the thresholds for overnight monitoring and potential margin calls).

OCC would calculate the Intraday Risk Charge based on the average daily increased risk identified through OCC's current intraday margin system between the hours of 11:00 a.m. and 12:30 p.m. Central Time; provided however, that OCC may adjust the Intraday Risk Charge as described further below. This change would address comments received by the SEC that the 20-minute snapshots during overnight and intraday trading hours were too frequent and suggested that OCC use fewer snapshots at predictable intervals. In particular, by narrowing the window, Execution-Only Clearing Members[14] that are able to allocate trades prior to that window may eliminate or significantly reduce their intraday risk exposure for purposes of determining an Intraday Risk Charge.

The Intraday Risk Charge would be calculated on the first business day of the month and would be based on data and STANS outputs generated over the lookback period, which will be set as the previous month. The Intraday Risk Charge would be calculated monthly as at least the average of the peak intraday risk increases over the shorter duration. OCC considers the one-month lookback period, a timeframe that includes one monthly and multiple weekly standard expirations, to be a conservative approach that would react faster to recent changes in the risk behavior of Clearing Members compared to a more extended lookback period and produces more relevant forecasts for the next monitoring cycle.[15]

The calculation of the peak intraday activity would capture all products that OCC clears, including 0DTE options. The Intraday Risk Charge would apply to all margin accounts other than cross-margin accounts for OCC's cross-margining program with the Chicago Mercantile Exchange ("CME"), which do not currently support intraday position feeds. OCC would retain authority to increase the amount of the charge for a particular Clearing Member beyond the average of the peaks, either when adjusting the Intraday Risk Charge on a monthly basis or on an intra-month basis, when conditions would warrant a different approach consistent with maintaining sufficient financial resources to cover OCC's intraday credit exposure. Conditions that would cause OCC to increase the Intraday Risk Charge above the minimum amount include when OCC determines it maintains insufficient margin resources to cover the pattern or distribution of risk increases over the previous lookback period, or in cases of an account's business expansion. OCC would also have authority to decrease the amount of the charge, which would be limited to a Clearing Member's business reduction, termination of account(s), transfer of positions to different account(s), or the imposition of

---

14 OCC's By-Laws define "Execution-Only Clearing Members" to mean a Clearing Member approved to act only as a Clearing Member that transfers confirmed trades or allocates position so other Clearing Members, and not to carry positions in its accounts with the OCC on a routine basis.

15 OCC also considered lookback periods of less than one-month, including a one-week period, and observed that any lookback period less than one-month was operationally intensive to implement. Establishing a monthly cadence allows OCC to investigate and exclude results from the intraday risk system that are not attributable to actual risk increasing activity, such as results caused by corporate actions. In any case, using a one-week lookback period would result in procyclical effects. Intraday Risk Charge moves for Clearing Members from one week to another would reduce the predictability of the add-on charge on Clearing Member margin requirements. As described above, OCC believes the one-month lookback provides a more conservative and relevant forecasts.

protective measures under Rule 307B. Such charge adjustments may apply to particular or all Clearing Members.

To effect the proposed changes, OCC proposes to amend Rule 601 by adding a new paragraph (i) as described above to incorporate the shorter time frame involved in the calculation of the Intraday Risk Charge. OCC proposes to define the Intraday Risk Charge under proposed Rule 601(i)(1) to mean the additional margin assets required from a Clearing Member to mitigate any increased risk exposure to OCC not otherwise covered by the margin requirements already calculated in accordance with Rule 601 and OCC's policies and procedures. To reflect the narrower time from which the observations that determine the Intraday Risk Charge would be drawn, Rule 601(i)(1) would further provide that OCC may assess the Intraday Risk Charge as part of the Clearing Member's daily margin required, as needed, to mitigate exposure and cover uncollateralized risk resulting from "intraday trading activities." [16]

Proposed Rule 601(i)(2) would be modified to provide the method of calculation for the Intraday Risk Charge add-on, which would generally be set as the average of the peak intraday risk increases from portfolio position changes between 11:00 a.m. and 12:30 p.m. Central Time over the preceding month.[17] Specifically, that Rule would provide that OCC retains authority to adjust the Intraday Risk Charge if OCC determines that circumstances particular to a Clearing Member's activity would warrant a different approach consistent with maintaining sufficient financial resources to cover OCC's intraday credit exposure. Any adjustment under this Rule to decrease the amount of the Intraday Risk Charge calculated from the previous month's intraday risk increases would be limited to a Clearing Member's business reduction, termination of account(s), transfer of positions to different account(s), or the imposition of protective measures under Rule 307B. Rule 601(i)(3) would also provide that OCC retains the authority to adjust the Intraday Risk Charge more frequently than monthly.

OCC would also amend its Margin Policy to describe material aspects of the Intraday Risk Charge as discussed herein. The new charge would be added to the "Add-On Charges" section. That proposed addition, as amended, would provide that between 11:00 a.m. through 12:30 p.m., OCC measures the intraday exposure to each margin account for which intraday position information is available to identify intraday risk increases above the baseline STANS risk measurement. The proposed amendments to the Margin Policy would define this time window as the "Intraday Risk Charge Measurement Time." The Margin Policy would define "risk increases" in this context as results that show an increase to a portfolio's prior night calculated risk measurement based on the STANS expected shortfall and stress test components.

---

[16] As discussed above, OCC would continue to address intraday risk exposure from overnight trading activity as it currently does under its ETH procedures. See infra Table 1 note b and accompanying text. Clearing Members trading during ETH hours will still be obligated to pay an ETH margin add-on charge, and any ETH related risk controls will continue to operate independently from the proposed Intraday Risk Charge changes.

[17] A lookback of one month was selected to represent a complete monthly options expiration cycle.

The Margin Policy would further provide that on at least a monthly basis, OCC's Financial Risk Management department ("FRM") reviews and verifies the daily peak increases in the Intraday Risk Charge Measurement Time based on a referenced procedure maintained by FRM's Market Risk business unit. This verification of risk-increasing activity is intended to address certain known limitations in OCC's existing intraday system. For example, the system does not take into account options affected by corporate action adjustments and newly listed option series or strikes, which do not receive adjusted metrics until the next overnight margin calculation process. In addition, the 20-minute snapshot generated by the system may not capture a complete trade in a single snapshot, which may result in a misalignment of the peak calculation for an account. The snapshot timing may also cause collateral movements to be recorded as risk-increasing deposits instead of being risk-reducing movements. Pursuant to the referenced procedures, Market Risk would verify the peak daily results to prevent erroneous results from affecting the calculation of the Intraday Risk Charge. This verification process is similar to, and would proceed in a similar manner as, Market Risk's long-standing process for verifying results from OCC's system for monitoring a portfolio's unrealized losses based on current prices and start-of-day positions for purposes of charging intraday margin calls. Upon completion of the verification process, OCC would apply the Intraday Risk Charge to Clearing Members for the upcoming month.

The Margin Policy would provide that OCC may impose the Intraday Risk Charge in the amount of the average of the verified peak daily risk increases in the Intraday Risk Charge Measurement Time over the prior month with FRM Officer[18] approval. Adjustments to the charge can occur at the time of the monthly review or on an intramonth basis, e.g., in response to the intraday monitoring thresholds discussed below. Reductions would be limited to persistent changes in clearing activity that would reduce the risk profile of the account, e.g., business reduction, account terminations transfer of positions to different account(s), or the imposition of protective measures under Rule 307B. Any changes that would increase the charge over the minimum calculated may result from changes in the pattern or distribution of risk increases over the previous lookback period or persistent changes in clearing activity that would increase the risk profile of the account, e.g. business expansions. If the FRM Officer recommends any changes to an Intraday Risk Charge, the Model Risk Working Group ("MRWG") must review and is authorized to escalate the recommendation to the Office of the Chief Executive Officer, who must review and is authorized to approve the changes.[19] The Margin Policy vests review responsibility and escalation authority to the MRWG because it is a cross-functional group responsible for assisting OCC's management in overseeing OCC's model-related risk comprised of representatives from relevant OCC business units. OCC believes that the MRWG is the appropriate decisionmaker to consider whether a higher Intraday Risk Charge is warranted because it is composed of the subject matter experts most familiar with the performance of and risks associated with OCC's margin models, including personnel in

---

18 Officers are identified in OCC's By-Laws. See OCC By-Law Art IV. In this context, an FRM Officer would include any member of FRM appointed by the Chief Executive Officer or Chief Operating Officer, including a Managing Director, Executive Director or Executive Principal. Id., at § 9.

19 Such changes to the Intraday Risk Charge must be based on the current charge being insufficient as defined in Exhibit 5A and confidential Exhibit 5B to Amendment No. 3 to File No. SR-OCC-2024-010.

OCC's Model Risk Management business unit, who, under OCC's Risk Management Framework, are responsible for evaluating model parameters and assumptions and providing effective and independent challenge through OCC's model lifecycle.[20]

OCC has reviewed the potential impact of the proposed add-on charge on all Clearing Members over a thirteen-month period.[21] OCC has observed that the proposed add-on would have generated a margin increase of less than 1.1% in the aggregate on average, representing almost $1.099 billion across all Clearing Member margin requirements. Of the ten firms that would be most impacted, which collectively represent approximately 73% of the additional margin that would have been assessed, the average daily margin percentage increase ranges from approximately 1% to less than 15%, based on data from September 2023 to September 2024, or between $22 million and $315 million.

Based on that data, the aggregate amount of the additional margin would be distributed across market-maker, firm and customer accounts as follows:

Account	**Impact**
Market-Maker Accounts	$276.6 million
Firm Accounts	$306.3 million
Customer Accounts	$516.7 million
All Accounts	$1.0996 billion

With respect to firms classified as Execution-Only Clearing Members, the add-on charge would generate approximately $23.4 million of additional margin in the aggregate, assuming that Execution-Only Clearing Members made no changes to allocate trades prior to the Intraday Risk Charge Measurement Time.

20 See Exchange Act Release No. 95842, 87 FR at 58416 (File No. SR-OCC-2022-010) (filing to establish OCC's Risk Management Framework). OCC Risk Management Framework is available on OCC's public website: https://www.theocc.com/risk-management/risk-management-framework.

21 This impact assessment does not account for potential changes in Clearing Member behavior that might further reduce the impact. To the extent a Clearing Member allocates trades to other Clearing Members under OCC's Clearing Member Trade Assignment ("CMTA") Rules or otherwise reduces its intraday risk in advance of the Intraday Risk Measurement Time, the actual impact of the Intraday Risk Charge may be less.

2. Intraday Monitoring Thresholds

OCC also proposes to establish monitoring and escalation criteria when a Clearing Member's intraday risk increase departs significantly from the activity that set the Intraday Risk Charge ("Intraday Monitoring Thresholds"). Specifically, OCC proposes to establish the Intraday Monitoring Thresholds as statistical measures (e.g., one, two or three standard deviations) above a Clearing Member's peak intraday risk increases over the prior month. OCC would measure the Intraday Monitoring Threshold for each Clearing Member against the average over the lookback period of the verified peak intraday risk increases determined between 12:30 a.m. and 3:15 p.m.. OCC believes that measuring the thresholds using this longer window, rather than against the window for the Intraday Risk Charge as proposed above,[22] would result in a more manageable number of potential risk increases for escalation, allowing OCC decisionmakers to focus on potential changes in activity that present the most risk. OCC proposes to amend the section of the Margin Policy that currently addresses margin calls and adjustments. The Margin Policy would provide that FRM would establish and maintain Intraday Monitoring Thresholds in referenced market risk procedures for verified intraday risk increases that are greater than statistical measures above a Clearing Member's average over the lookback period determined between 12:30 a.m. and 3:15 p.m. Central Time. This average would be determined separately and independently of the Intraday Risk Charge across Clearing Member accounts.

The Margin Policy would also provide that FRM coordinates a review of those thresholds, as well as the calculation and lookback period, on an at least annual basis, or on an ad-hoc basis, as needed. OCC retains the authority to adjust the Intraday Monitoring Thresholds, as well as the calculation and lookback period, based on the review of intraday risk posed by Clearing Member's portfolio changes. Any such adjustment to the Intraday Monitoring Thresholds, calculation, or lookback period may apply to particular or all Clearing Members depending on an analysis of the activity generating peak intraday margin numbers, the number of breaches above the monitoring thresholds, and overall market activity and trends within the lookback period. The review would be presented to the MRWG, which must review and is authorized to escalate any recommended changes to the Office of the Chief Executive Officer, who must review and is authorized to approve them. OCC's Risk Committee will be notified of all changes. As discussed above, OCC believes that the MRWG is the appropriate decision-maker to consider any changes to the Monitoring Thresholds because it is composed of the subject matter experts most familiar with the performance of and risks associated with OCC's margin models.

3. Intraday Margin Calls

OCC also proposes to issue margin calls on individual Clearing Member accounts if the verified intraday risk increases for those accounts breach and exceed the Intraday Risk Monitoring

---

22 As indicated in the impact assessment above, the proposed amendments to the Intraday Risk Charge would have the effect of reducing the charge, which would make breaches of the Intraday Monitoring Thresholds more likely if measured against the Intraday Risk Charge as proposed to be amended.

thresholds (e.g., in excess of three standard deviations) during a scheduled, single collection time in which such a margin call would be collected in the ordinary course, while maintaining authority to issue an unscheduled margin call outside that timeframe in extraordinary circumstances with additional escalations. As discussed below, these amendments are intended to align with OCC's existing intraday margin call processes and the SEC's October 25, 2024, final order amending the CCA Standards.

The Margin Policy would provide that on at least a daily basis, FRM would review the intraday risk increases generated by the intraday risk system against the Intraday Monitoring Thresholds. As proposed to be amended, the Margin Policy would provide that if a verified intraday risk increase breach at or around 12:00 p.m. Central Time is greater than the Intraday Monitoring Thresholds, the Margin Policy would provide that an FRM Officer may issue a margin call,[23] make a margin adjustment to lock up excess collateral, or recommend protective measures under Rule 307. The Margin Policy would further be amended to provide that any such margin call issued by an FRM Officer would be collected as a single intraday collection time. Accordingly, the Margin Policy as amended would now provide a single, scheduled time for the issuance and collection of such intraday margin calls. This collection timeframe aligns with the timeframe during which the observations for the Intraday Risk Charge are measured and gives Clearing Members greater certainty about when the activity that would inform the call would be measured and the call imposed. The timing also aligns with the timing for OCC's current Portfolio Revaluation margin calls, which are generally collected at a single time based on a measurement of a portfolio's profit and loss at or around noon.[24] As with OCC's existing margin calls, the proposed margin call would be subject to a price minimum below which OCC generally would not issue a call.[25] Specifically, OCC has established a $500,000 price minimum for issuing margin calls, which aligns with the minimum Clearing Fund deposit required of each Clearing Member.[26]

The Margin Policy would further provide that any margin calls issued outside of the standard processing time window must be approved by the Chief Financial Risk Officer, Chief Executive Officer, Chief Operating Officer, or Chief Risk Officer. This change aligns with OCC's current Portfolio Revaluation margin call process in allowing margin calls to be issued outside the single intraday collection time in exceptional circumstances with escalated approval. OCC believes that margin calls issued outside the single intraday collection time would be the exception, rather than the rule. This change also aligns with SEC guidance from its October 25, 2024, final rule amending

---

[23] Margin calls in this context are demands by OCC to Clearing Members for the deposit of additional margin in immediately available funds to increase their margin resources to meet increased margin requirements. Margin calls are issued subject to OCC's policies and procedures.

[24] See Exchange Act Release No. 82658, infra Table 1 note c, 83 FR at 6648 (approving OCC's Margin Policy, including the timing of margin calls).

[25] Id. (approving OCC's Margin Policy, including the price minimum for margin calls).

[26] See OCC Rule 1002(d).

the CCA Standards, suggesting that scheduled intraday margin calls may not be sufficient and that CCAs would need to have the ability to make unscheduled intraday margin calls.[27]

The Margin Policy would be further revised to state that any margin call would be calculated as the difference between the reviewed intraday risk increase at the single intraday collection time at or around 12:00 p.m. Central Time and the Intraday Risk Charge. Intraday margin calls would only be increasing financial resources to OCC. Generally, an intraday margin call would be released the next business day.

Data from September 2023 to September 2024 indicates there would have been approximately 1024 potential margin calls issued under the proposed changes, as amended. The average daily margin call amount would have been $27 million

4. Discretion to Issue Margin Calls

OCC also proposes to modify the Margin Policy to add a provision whereby an FRM Officer will have the discretion to decide whether to issue or not issue a margin call, if in their judgement the call is not necessary to effectively manage the risk posed to OCC based on the specific facts and circumstances. Such circumstances would include instances where OCC's intraday risk system may produce results that may not indicate actual risk increasing activity, such as (i) when the intraday risk increase can be attributed to one or more intraday events or actions including but not limited to portfolio level changes resulting from positive offsetting P&L amounts or positive offsetting asset values for options and collateral, or from non-risk increasing events such as the substitution of collateral or the pledging of additional valued securities within the same account, or (ii) if the risk increase in the account is the result of a corporate action, or the result of position transfers between accounts such as delayed CMTA's from execution-only accounts, or when a P&L unrealized loss generates a margin call that exceeds the intraday margin call. In addition, as proposed to be amended, the Margin Policy would provide that such circumstances also, including but not limited to, circumstances in which issuing a call would not align with broader systemic objectives such as minimizing potential procyclical effects and potential participant defaults.

In all such cases, the FRM Officer would be required to document the basis for their decision not to issue a margin call at the single intraday collection time for an account breaching the Intraday Risk Monitoring Threshold at or around 12:00 p.m. Central Time.[28] These proposed change are aligned with the SEC's guidance on intraday margin calls issued in its October 25, 2024, final rule

---

27 See infra Table 1 note c and accompanying text.

28 For the avoidance of doubt, this documentation requirement would not extend to monitoring of Intraday Risk Monitoring Threshold breaches outside of the single intraday collection period, notwithstanding OCC's authority to make an exception to its written policies and procedures to issue a margin call for activity falling outside that period.

amending the CCA Standards, concerning intraday margin calls.[29] The change is also aligned with the documentation requirement in new SEC Rule 17Ad-22(e)(6)(ii)(D), which requires a CCA to document when it determines not to issue an intraday call pursuant to its written policies and procedures.[30]

5. Implementation Timeframe

OCC proposes to extend the implementation period. Subject to regulatory approval of the proposal, OCC plans to implement the proposed changes in September of 2025. OCC will announce the implementation date of the proposed changes by an Information Memorandum posted to its public website at least 4 weeks prior to implementation. This proposed implementation is designed to align with, but is not contingent on, OCC's planned replacement of its core clearance and settlement system, ENCORE, with a new system, Ovation. The proposed implementation dates are within the compliance period for the SEC's October 25, 2024, final rule, which requires a CCA to implement rule-filed changes by December 15, 2025.[31]

Consistency with DCO Core Principles

OCC reviewed the DCO core principles ("Core Principles") as set forth in the Act, the regulations thereunder, and the provisions applicable to a DCO that elects to be subject to the provisions of 17 CFR Subpart C ("Subpart C DCO"). During this review, OCC identified the following as potentially being impacted:

Risk Management. OCC believes that the proposed changes are consistent with Core Principle D and the CFTC Regulations thereunder, which, in general, require that a DCO possess the ability to manage the risks associated with discharging the responsibilities of the DCO through the use of appropriate tools and procedures.[32] As noted above, the Intraday Risk Charge would be applied daily to each marginable account based on that account's intraday risk increases from the previous month. Through the proposed Intraday Monitoring Thresholds, OCC would monitor accounts for intraday and overnight activity that deviates from the risk increasing activity that set the Intraday Risk Charge for the previous month and would be authorized to issue a margin call or take other action to protect OCC in such defined circumstances. Accordingly, OCC believes these tools and procedures are appropriate for managing the risks to which it is exposed from its Clearing Member's intraday trading activity, consistent with CFTC Regulation 39.13(a).

---

29 See Exchange Act Release No. 101446, supra note 2, 89 FR at 91009-10 (discussing factors for CCAs to consider when determining whether to issue an intraday margin call).

30 17 CFR 240.17Ad-22(e)(6)(ii)(D).

31 See infra Table 1 note e and accompanying text.

32 See 17 CFR 39.13(a).

In addition, CFTC Regulation 39.13(e)(2) requires that a DCO monitor is credit exposure to each Clearing Member periodically during each business day.[33] As addressed above, OCC would monitor accounts for intraday and overnight activity for activity that exceeds the Intraday Monitoring Thresholds and would maintain authority to issue margin calls to address such credit exposures. As such, OCC believes that the proposed changes are consistent with CFTC Regulation 39.13(e)(2).

CFTC Regulation 39.13(f) further provides that a DCO must limit its exposure to potential losses form defaults by its Clearing Members through margin requirements and other risk control mechanisms reasonably designed to ensure that: (1) the operations of the DCO would not be disrupted, and (2) non-defaulting Clearing Members would not be exposed to losses that non-defaulting Clearing Members cannot anticipate or control.[34] Currently, OCC may be exposed to increased credit exposure from uncollateralized overnight and intraday trading activity, including that of 0DTE options that is not otherwise collateralized and captured by OCC's current margin system at the start of each business day. OCC believes the proposed changes would enable OCC to mitigate the credit exposure resulting from the increased risk of overnight and intraday trading that includes 0DTE option contracts by using the system it currently operates to monitor overnight trading activity. The Intraday Risk Charge would provide OCC with additional margin resources to help mitigate this risk and allow OCC to continue to provide prompt and accurate clearance and settlement services of securities and derivatives transactions without disruption in the event of a Clearing Member default. The additional margin resources would also help mitigate the risk that OCC may charge the Clearing Fund deposits of non-defaulting Clearing Members if the financial resources collected from the defaulting Clearing Member were insufficient to cover OCC’s losses. Accordingly, OCC believes the proposed changes are consistent with CFTC Regulation 39.13(f).

Finally, CFTC Regulation 39.13(g)(2)(i) requires that DCO’s initial margin requirements be commensurate with the risks of each product and portfolio, including any unusual characteristics of, or risks associated with, particular products or portfolios.[35] As discussed above, the rise in 0DTE options trading presents unique risks to OCC. Specifically, OCC’s intraday exposure to 0DTE options is currently uncollateralized. OCC has designed the Intraday Risk Charge to help mitigate this risk by providing OCC with additional margin resources to cover its exposure to 0DTE options in the event of a Clearing Member default. Accordingly, OCC believes the proposed changes are consistent with CFTC Regulation 39.13(g)(2)(i).

For these reasons, OCC believes that the proposed changes are consistent with the requirements of the DCO Core Principles and the CFTC Regulations thereunder.

---

[33] 17 CFR 39.13(e)(2).

[34] 17 CFR 39.13(f).

[35] 17CFR 39.13(g)(2)(i).

Opposing Views

Public comments on the proposed rule change were filed with the SEC and OCC's response to such comments may be viewed on the SEC's public website.[36] Based on the comments the SEC received and the release of the SEC's October 25, 2024, final rule amending the CCA Standards,[37] OCC filed an amendment ("Amendment No. 3") to its initial filing on January 14, 2025. Material changes to the initial filing and the rationale for such amendments are summarized in the following table:

Table 1 – Summary of Changes Proposed by Amendment No. 3

(Footnotes at end of table.)

Initial Filing	**Amendment**	**Rationale for Amendment**
The Intraday Risk Charge would be calculated based on the average of the previous month's daily peak intraday risk increases observed from 20- minute snapshots in overnight and regular trading hours, between **12:30 a.m. through 3:15 p.m. Central Time.**	The Intraday Risk Charge would be calculated based on the average of the previous month's daily peak intraday risk increases observed from 20-minute snapshots between **11:00 a.m. through 12:30 p.m. Central Time.**	Industry participants commented that 20-minute snapshots during trading hours were too frequent, and suggested the OCC use fewer snapshots at predictable intervals.[a] OCC would continue to manage the intraday risk associated with overnight trading activity through its existing extended trading hour procedures.[b]

[36] See Options Clearing Corporation (OCC) Rulemaking, https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010.htm.

[37] See Exchange Act Release No. 101446 (Oct. 25, 2024), 89 FR 91000 (Nov. 18, 2024) (amending 17 CFR 240.17Ad-22-22(e)(6)(ii)).

Table 1 – Summary of Changes Proposed by Amendment No. 3

(Footnotes at end of table.)

Initial Filing	Amendment	Rationale for Amendment
An OCC Officer may issue a margin call if a verified intraday risk increase during regular trading hours is greater than 3 standard deviations of a Clearing Member's Intraday Risk Charge.	An OCC Officer may issue a margin call **at a single intraday collection time** if a Clearing Member's verified intraday risk increase at or around **12:00 p.m. Central Time** is greater than 3 standard deviations of the previous month's daily peak intraday risk increases, observed from 20-minute snapshots between 12:30 a.m. through 3:15 p.m. Central Time.	The single collection timeframe aligns with (1) the timeframe in which the observations for the Intraday Risk Charge are measured, and (2) OCC's current scheduled Portfolio Revaluation margin calls previous approved by the SEC.[c] Measuring against the Clearing Member's peak intraday risk increases from both overnight and regular trading hours would result in a manageable number of potential risk increases to investigate for purposes of issuing margin calls, allowing OCC to focus on intraday activity presenting the most risk.
	OCC would continue to monitor for breaches of the 3 standard deviation threshold in 20-minute snapshots throughout the trading day, and would continue to have authority to issue an intraday margin call under Rule 609, as it does today. **Margin calls issued outside of the single intraday collection time must be approved by the Chief Financial Risk Officer, Chief Executive Officer, Chief Operation Officer, or Chief Risk Officer.**	This amendment aligns with (1) SEC guidance in the above-referenced final rule that schedule intraday margin calls may not be sufficient and that CCAs need to have the ability to make unscheduled intraday margin calls,[d] and (2) OCC's current Portfolio Revaluation margin call process in allowing margin calls to be issued outside the single intraday collection time with escalated approvals.

Table 1 – Summary of Changes Proposed by Amendment No. 3

(Footnotes at end of table.)

Initial Filing	Amendment	Rationale for Amendment
120-day implementation period following receipt of all necessary regulatory approval	OCC would implement the changes in September 2025.	Industry participants have commented that 120 days is insufficient for them to prepare for the changes. The proposed implementation dates are within the compliance period for the SEC's above-referenced final rule, which requires a CCA to implement rule-filed changes by December 15, 2025.[e]

a See, e.g., letter from Kimberly Unger, CEO and Executive Director, The Security Traders Association of New York, Inc. dated October 30, 2024, available at https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010.htm.

b See Exchange Act Release No. 74268 (Feb. 12, 2015), 80 FR 8917 (Feb. 19, 2015) (SR-OCC-2014-24) (SR-OCC-2014-24) (requiring Clearing Members qualified to participate in overnight trading sessions to provide an additional margin requirement in an amount of the lesser of $10 million or 10% of the Clearing Member's net capital).

c See Exchange Act Release No. 82658 (Feb. 7, 2018), 83 FR 6646, 6648 (SR-OCC-2017-007).

d See Exchange Act Release No. 101446, supra note 37, 89 FR at 91005.

e Id. at 91037.

Substantive opposing views not incorporated into the rule include those seeking OCC to exempt execution-only brokers from the Intraday Risk Charge, to limit the calculation of the Intraday Risk Charge to 0DTE activity, to use a look-back period for the Intraday Risk Charge shorter than one month, to extend implementation of the proposed changes beyond the compliance dates for the SEC's amendments to the CCA Standards, and to wait to manage the risks associated with intraday trading activity until a more comprehensive, real-time technological solution is available or to agree to sunset the proposed charges by a set date in the future.[38]

38 See Exchange Act Release No. 102768, supra note 1, 90 FR at 15278 (summarizing comments received and OCC's response concerning the implementation timeframe), 15280-81 (summarizing comments received and OCC's response concerning burden on competition, including on execution-only brokers), 15282-86 (summarizing comments received and OCC's response concerning OCC's collection of financial resources to cover its credit exposure with a high degree of confidence); 15286 (summarizing comments received and OCC's response concerning OCC's risk-based margin system).

<u>Notice of Pending Rule Certification</u>

OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of this certification on OCC's website concurrently with the filing of this submission.

<u>Certification</u>

OCC hereby certifies that the rule set forth at Exhibit A and confidential Exhibit B of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

<u>/s/ Hafez A. Almiladi</u>

Hafez A. Almiladi
Assistant General Counsel
The Options Clearing Corporation

Enclosure: Exhibit A and Confidential Exhibit B

EXHIBIT A

OCC Rules

Underlined text indicates new text added

Chapter VI – Margin

* * *

RULE 601 – Margin Requirements

* * *

(i) *Intraday Risk Charge*.

(1) The Corporation may require a Clearing Member to deposit additional margin assets to mitigate any increased risk exposure to the Corporation that may not otherwise be covered by the margin requirements calculated in accordance with this Rule and the Corporation's policies and procedures ("Intraday Risk Charge"). The Corporation may assess the Intraday Risk Charge as part of the Clearing Member's daily margin requirement, as needed, to mitigate exposure and cover uncollateralized risk resulting from intraday trading activities.

(2) The Intraday Risk Charge will generally be the average of the daily peak intraday risk increases from portfolio position changes measured between 11:00 a.m. and 12:30 p.m. over the preceding month determined pursuant to the Corporation's policies and procedures.

(3) At its discretion, the Corporation may adjust the Intraday Risk Charge if it determines that circumstances particular to a Clearing Member's clearance and settlement activity warrant a different approach to determining or applying such charge in a manner consistent with maintaining sufficient financial resources to cover the Corporation's credit exposure. Any adjustment under this Rule to decrease the amount of the Intraday Risk Charge calculated from the previous month's intraday risk increases would be limited to a Clearing Member's business reduction, termination of account(s), transfer of positions to different account(s), or the imposition of protective measures under Rule 307B.