



September 5, 2024

By Electronic Delivery

Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

**Re: Docket No. OP-1831 Expansion of Fedwire[®] Funds Service and
National Settlement Service Operating Hours**

Dear Ms. Misback:

The Options Clearing Corporation (“OCC”) appreciates the opportunity to submit our comments to the Federal Reserve Board (“FRB” or the “Board”) on the above-referenced proposal (“Proposal” or “Proposed Rules”).¹ The Proposal would expand the operating hours of the Fedwire Funds Service (“FFS”) to 22 hours per day, 7 days per week, every day of the year (22x7x365) and to correspondingly expand the operating hours of National Settlement Service (“NSS”), with NSS closing 30 minutes earlier than FFS. OCC writes in support of the Proposal, as detailed below, and offers responses to selected requests for comment from the Release.

I. About OCC

Founded in 1973, OCC is the world’s largest equity derivatives clearing organization. OCC operates under the jurisdiction of both the Securities and Exchange Commission (“SEC”) and the Commodity Futures Trading Commission (“CFTC”). As a registered clearing agency under the SEC’s jurisdiction, OCC is the sole clearing agency for equity options listed on national securities exchanges. As a registered Subpart C DCO under the CFTC’s jurisdiction, OCC clears and settles transactions in futures and options on futures. OCC also provides central counterparty clearing and settlement services for securities lending transactions. In addition, OCC has been designated by the Financial Stability Oversight Council as a systemically important financial market utility (“SIFMU”) under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). As a SIFMU, OCC is subject to prudential regulation by the FRB. OCC is recognized by the European Securities and Markets Authority as a Tier 1 third-country CCP under Article 25 of the European Market Infrastructure Regulation. OCC operates as a market utility and is owned by five exchanges.

II. OCC’s Interest in the Proposal

As part of OCC's designation as a SIFMU, OCC became eligible pursuant to Section 806 of Dodd-Frank to request the use of certain accounts and services of Federal Reserve Banks. Title VIII of Dodd-Frank and the Principles for Financial Market Infrastructures (“PFMIs”) encourage SIFMUs

¹ Docket No. OP-1831 Expansion of Fedwire[®] Funds Service and National Settlement Service Operating Hours, 89 FR 39613 (May 9, 2024) (“Release”).

to use central banks as depositories, because, among other things, they present low credit and liquidity risk to depositors. Use of central banks as depositories mitigates risk in the system as a whole, particularly contagion risk, given CCPs' interconnectedness with commercial banks (and their affiliates), on which they depend for settlement and collateral services, liquidity resources, and critically, as clearing members guaranteeing financial performance of their clients. Beginning in March 2016, pursuant to approval by the Board, OCC has maintained accounts (the "FRB Accounts") at the Federal Reserve Bank of Chicago. OCC maintains the FRB Accounts to hold cash margin posted by OCC's clearing members for such clearing members' proprietary or market maker accounts, as well as clearing fund deposits ("Clearing Fund"). Margin deposits made by clearing members in the form of cash pass through deposit accounts serving as the OCC's cash settlement system, by which OCC effects daily payments due to or from its clearing members. Such margin deposits may be held for longer periods of time in deposit accounts serving as cash custody accounts, including the FRB Accounts.

As part of its approval to maintain the FRB Accounts, OCC became authorized to use FFS. OCC uses FFS to manage its liquidity requirements, including both for daily settlement as well as in connection with managing a default or potential default by a clearing member, by transferring funds between the FRB Accounts and other accounts maintained by OCC at commercial banks.² OCC uses such commercial bank accounts to facilitate cash settlement of daily payment obligations with its clearing members. OCC has established risk management policies regarding the selection of settlement banks, and all banks being considered for a new type of relationship with OCC are required to submit to a formal evaluation that includes, among several other factors, proof of access to FFS. In addition to its own use of FFS, OCC understands that clearing members may use FFS for similar purposes – that is, to facilitate liquidity preparedness for daily settlement and any other event that may warrant the movement of cash, such as the possibility of an auction of a suspended clearing member's open positions in connection with OCC's default management procedures.

² A feature of OCC's recently revised agreement with the National Securities Clearing Corporation ("NSCC") is also relevant to OCC's interest in the Proposal. OCC is the sole clearing agency for options that contemplate the physical delivery of equities cleared by NSCC in exchange for cash ("physically settled" options). OCC rules also permit the clearing of certain futures contracts that, at maturity, require the delivery of equity securities cleared by NSCC in exchange for cash. As a result, the exercise and assignment of certain options cleared by OCC or, to the extent such instruments may be cleared, maturation of certain futures, effectively results in stock settlement obligations to be cleared by NSCC ("Exercise and Assignment Activity" or "E&A Activity"). NSCC and OCC maintain a legal agreement, generally referred to by the parties as the "Accord," that governs the processing of such E&A Activity for firms that are members of both OCC and NSCC ("Common Members"). To address the scenario where NSCC could choose not to guarantee settlement (e.g., where the member has not met its collateral requirements at NSCC), OCC's regulators recently approved revisions to the Accord that allow OCC to elect to make a cash payment, referred to as the Guaranty Substitution Payment or "GSP," to NSCC following the default of a Common Member that would cause NSCC to guarantee settlement of that Common Member's transactions and, therefore, cause those transactions to be settled through processing by NSCC. Given that the GSP could constitute a substantial liquidity commitment, in the event of a common member default, OCC could be required to use FFS to move cash between accounts for purposes of the GSP. *See* Order Granting Approval of Proposed Rule Change, as Modified by Partial Amendment No. 1 and Amendment No. 2, Concerning Modifications to the Amended and Restated Stock Options and Futures Settlement Agreement Between the Options Clearing Corporation and the National Securities Clearing Corporation, File No. SR-OCC-2023-007, SEC Release No. 34-99735 (Mar. 14, 2024), 89 FR 19907 (Mar. 20, 2024).

III. OCC Supports the Proposal to Expand FFS and NSS Availability

OCC supports the proposal to increase the availability of FFS and NSS to seven days a week, from the current five. OCC agrees with the Board that such expanded hours could allow a SIFMU such as OCC to take advantage of “broader hours for the settlement of time-critical payments,” and “to reduce credit risk. . . by narrowing the time gap between the creation of payment obligations and the discharge of those obligations in final funds, thereby reducing the potential for spillover effects in the financial system from settlement disruptions.”³ Specifically, OCC views the proposed expansion of FFS and NSS availability as an important step towards enabling next day settlement for all trading days, including the potential for Saturday settlements immediately following Friday trading, instead of on the following Monday as is the case now. The standard monthly option expirations that fall on Fridays tend to be some of the larger expirations during the year from a liquidity perspective. Thus, the ultimate potential for a next day settlement for Friday activity would allow OCC and other market participants additional time and flexibility following a missed Saturday settlement prior to the resumption of trading on the following business day (likely Monday). More specifically, such change would provide additional time and flexibility for OCC to address potential funding and liquidity preparedness for a member default or a disruption in the settlement process. OCC could begin to plan and put into action that plan to address any deficits as a result of a default or other settlement disruption prior to the next trading day (generally, Monday). Furthermore, the proposed expansion of FFS and NSS would enhance safety and efficiency in the financial system because of the potential to reduce settlement risk for those firms that operate outside of traditional hours, such as OCC with respect to its Extended Trading Hours program (“ETH”).⁴ Expanded access would allow OCC to collect margin from Clearing Members during ETH, thus allowing OCC to collateralize position risk sooner.

OCC believes the proposed timeline for the expanded hours program makes sense but notes that moving to a Saturday settlement for Friday trading would require widespread participation in the 22x7x365 expanded FFS and NSS hours by a range of market participants, including, but not limited to, equity market participants, repo providers, Treasury and other fixed income market participants, and depository institutions. Moreover, such participation will require significant operational and personnel investments and possible rule changes by impacted entities to ensure resilience, functionality, and appropriate modernization. For these and the other reasons identified by the Board, OCC agrees with the FRB that it is appropriate to make participation in the expanded hours optional.

While OCC expects to eventually participate in the expanded hours, OCC believes that market participants, including clearing agencies, will need time to identify and address potential risk management, operational, and rulemaking impacts to fully realize the goals of the Proposal. As described in footnote 2, above, OCC and NSCC maintain an agreement (the Accord) that governs the processing of certain E&A Activity for firms that are members of both OCC and NSCC. This agreement facilitates the settlement of obligations that result from the exercise of physically settled securities options and the maturation of physically settled stock futures through NSCC’s systems. Separately, OCC and the Chicago Mercantile Exchange (“CME”), another SIFMU, maintain a

³ Release at 39616.

⁴ See Order Approving Proposed Rule Change Concerning Extended and Overnight Trading Sessions, File No. SR-OCC-2014-24, SEC Release No. 34-74268 (Feb. 12, 2015), 80 FR 8917 (Feb. 19, 2015).

Cross-Margining Agreement (the “X-M Agreement”) to facilitate the cross-margining of positions in options cleared by OCC with positions in futures and commodity options cleared by CME. The X-M Agreement contains provisions intended to ensure timely liquidity preparedness by OCC and CME to address the risks presented by the potential default of a common clearing member. OCC believes the Proposal supports many of the same risk management goals as the Accord and the X-M Agreement and OCC would work with NSCC and/or CME (as appropriate) to realize any risk management benefits offered by the Proposal under the Accord and/or the X-M Agreement.⁵ However, such changes will require coordination with NSCC and CME, sufficient time for implementation and regulatory consideration, as well as an understanding of the extent of participation by other impacted entities that OCC interacts with during weekday business as usual processes. As stated above, given the uncertainty surrounding the timing of these processes, OCC supports the FRB’s determination to make participation in the expanded hours optional as part of the Proposal.

IV. Responses to Selected Requests for Comment

RFC 1: What are the primary benefits to the banking industry, financial markets, and broader economy from an expansion to 22x7x365 Fedwire Funds Service and NSS operating hours? What are the primary benefits to your institution?

As discussed above, from OCC’s perspective, expansion to 22x7x365 is an important step to creating conditions that may ultimately support next calendar day settlement for Friday trading in markets cleared through OCC, including listed options, securities futures, and stock loans. Such Saturday settlement would enhance systemic resilience by providing additional time to OCC and its members to identify any defaults or settlement disruptions sooner and take action to address liquidity preparedness prior to the resumption of normal market activity on the following business day.

RFC 5: Do you prefer an interim expansion of operating hours before moving to 22x7x365? If so, what operating hours for the Fedwire Funds Service and NSS would be most useful for your institution? What considerations factor into your preference?

From the perspective of its own business, OCC believes that many of the potential benefits from the proposed expansion to 22x7x365 could be realized through moving the cutoff time for FFS two to three hours later in the day, that is, to 9:00 p.m. or 10:00 p.m. ET. The current 7:00 p.m. ET cutoff, which appears to be based at least partly on operational assumptions that pre-date significant automation in the industry, unnecessarily pushes activity to following-day settlement within a short period following the close of market activity. In the event of a potential default or disruption at or following the end of trading on a given day, a later FFS cutoff time would provide market

⁵ By way of example, among other things, the combined settlement of OCC and NSCC positions reduces operational complexity and risk for market participants, while also mitigating potential market and liquidity risks that could arise if OCC and NSCC cleared positions were settled by an alternative method. Realization of these benefits depends on coordinated operations, technology and information sharing between OCC and NSCC. The timelines for interactions between OCC and NSCC under their agreement have been configured to reflect existing conditions. *See supra* note 2.

participants with added flexibility to pre-position liquidity and enhance resiliency and preparedness in advance of market opening on the following day.

RFC 7: Are you interested in full 24x7x365 operating hours for Fedwire Funds Service and NSS? If so, what is your preferred time frame for such an expansion of operating hours? What considerations factor into your preference?

For the reasons discussed in the Release, OCC agrees with the Board that it is appropriate to limit the expansion, in the first instance, to 22x7x365, rather than moving directly to 24x7x365 availability. Given the anticipated 2027 implementation date and the Board's determination that participation in the expanded hours should be optional, OCC does not believe an interim expansion is necessary.

RFC 6: What is your preferred timeline for a potential expansion of Fedwire Funds Service and NSS operating hours to 22x7x365? What considerations factor into your preference (for example, demand, time to implement changes, adjustments to staffing and internal systems, other major industry milestones or payment system improvements)?

OCC supports the Board's proposed timeline, assuming participation in the expanded hours remains optional upon implementation.

RFC 9: What are the ways in which benefits, costs, or risks of 22x7x365 Fedwire Funds Service and NSS could vary for different types of market participants (for example, for smaller institutions, non-traditional participants, or participants in particular time zones)?

As discussed above, OCC anticipates that it would use the expanded FFS in circumstances where there was widespread adoption of the expanded schedule across a wide variety of market participants, including clearing members, depository institutions, and other FMUs. Introducing next calendar day settlement for Friday trading would, as described above, benefit not just members but also the wider financial system by increasing resiliency and preparedness for adverse events such as defaults. However, such widespread adoption would require significant time, expense, operational effort, and potential rule changes by numerous entities of varying sizes, and OCC cannot predict the appetite for such investment of resources in light of each relevant entity's varying priorities.

RFC 11. The Federal Reserve plans to maintain the ability to opt out of expanded hours. How would the optionality with respect to participating in a 22x7x365 operating hours environment of the Fedwire Funds Service and NSS, as described in this notice, benefit or challenge your institution or the broader industry? What steps might the Federal Reserve take to augment potential benefits? What steps might the Federal Reserve take to mitigate potential costs and risks?

OCC supports the Board's determination to make participation in the expanded hours optional. While OCC believes the anticipated 2027 implementation date is a reasonable timeframe for any entity seeking to implement the expanded hours, it also comes in the context of a wide variety of regulatory and operational changes across the market, which will be prioritized differently by different market participants.

V. **Conclusion**

OCC thanks the Board for the opportunity to provide comment on the Proposed Rules. If you have any questions, please do not hesitate to contact Megan Flaherty, Managing Director, Head of Regulatory Law and Policy, at 312.322.6246, or mflaherty@theocc.com. OCC would be pleased to provide the Board with any additional information or analyses that might be useful in determining the content of the final rules.

Sincerely,

A handwritten signature in cursive script that reads "Megan Malone Cohen".

Megan Malone Cohen
General Counsel and Corporate Secretary