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February 20, 2025

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

RE: File No. SR-OCC-2024-010; Notice of Filing of Amendment No. 3 to Proposed Rule Change by the Options Clearing Corporation ("OCC") 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

Dear Ms. Countryman:

The Securities Industry and Financial Markets Association ("SIFMA")[1] submits this comment letter to the Securities and Exchange Commission (the "Commission") in response to OCC's initial proposal ("Initial Proposal"),[2] as amended by Amendment No. 3 ("Amended Proposal"),[3] to establish a margin add-on charge ("Intraday Risk Charge") that would be applied to all Clearing Member accounts to help mitigate the risks faced by OCC from intraday and overnight trading activity. SIFMA recognizes OCC's need to appropriately address the risks it faces related to the significant increase in trading of so-called "zero-days-to-expiration" or "0DTE" options, as well as its need to address the Commission's new intraday margining requirement to which it is now subject.[4] In this respect, we appreciate that OCC made some changes in the Amended Proposal intended to address certain concerns raised by commenters.

However, we note that many of our suggestions and concerns on the Initial Proposal from our October 15, 2024 comment letter ("October Letter") remain unaddressed in the Amended

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[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] See Release No. 34-100664 (Aug. 6, 2024), 89 FR 65695 (Aug. 12, 2024).

[3] See Release No. 34-102202 (Jan. 15, 2025), 90 FR 7722 (Jan. 22, 2025).

[4] See Release No. 34-101446 (Oct. 25, 2024), 89 FR 91000 (Nov. 18, 2024).

Proposal.[5] In light of OCC's intent (as demonstrated by the Amended Proposal) to move forward with its current approach to establish an Intraday Risk Charge, we call upon OCC to roll out the Intraday Risk Charge in phases—first applying it only to 0DTE activity of its Clearing Members and then, after review, consider expanding its coverage to other trading activity if necessary—and then ultimately sunset it when OCC is able to develop a more robust, tailored, and risk-sensitive intraday margining approach in its new clearing system Ovation, which we would expect should take no more than two years. We also ask OCC to consider and respond to commenters' unaddressed suggestions and concerns regarding the Initial Proposal, including why OCC did not follow the suggested, and potentially less disruptive, ways in which OCC could have proceeded to address intraday risks.[6]

As discussed below, we have several concerns with the Amended Proposal as well as further recommendations for the OCC to consider with respect to the Intraday Margin Charge. Specifically:

- While we appreciate some of the changes OCC made in the Amended Proposal, several of the changes are relatively minor and the OCC should respond to the outstanding recommendations made by commenters on the Initial Proposal, including SIFMA's comments.
- The OCC should apply the Intraday Risk Charge to the most relevant trading activity first—starting with the primary risk-increasing activity OCC has identified, 0DTE options transactions—and then, after review, determine whether to expand it to other cleared activity if necessary.
- The OCC should sunset the Intraday Risk Charge within the next two years, which will be enough time for it to develop and implement a new, more tailored and risk-sensitive approach to intraday margining using the Ovation system.

Concerns with the Amended Proposal

As noted in our October Letter, SIFMA recognizes the potential systemic risks faced by OCC related to both the significant increase in trading of 0DTE options as well as the normal accrual of intraday risk and acknowledges OCC's need to address these risks within a reasonable timeframe. In our letter, we noted that the Initial Proposal is too broad and blunt an approach to address these risks, and that its failure to appropriately tailor the Intraday Risk Charges to Clearing Members' actual levels of trading activity could have significant negative impacts on the listed options business of SIFMA members and the overall liquidity and quality of the listed options market. We also provided several constructive suggestions of alternative approaches for OCC to consider that are designed to more appropriately tailor its approach to addressing the

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[5] See (https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010-529655-1522002.pdf).

[6] See Release No. 34-101193 (Sept. 25, 2024), 89 FR 79977 (Oct. 1, 2024) (designating a longer period for Commission action on the Proposal and soliciting additional comments on it).

risks identified by OCC from intraday trading activity. SIFMA was not alone in expressing concerns about the Initial Proposal, as several other commenters expressed similar concerns.[7]

In response to some of these comments, OCC amended the Initial Proposal through Amendment No. 3. In that amendment, OCC is proposing to (i) narrow the window over which the Intraday Risk Charge would be calculated to between 11:00 a.m. to 12:30 p.m. Central Time ("CT"), (ii) remove any reference to the Intraday Risk Charge with respect to the Intraday Monitoring Thresholds and limit the issuance of margin calls to a single intraday collection time at or around 12:00 p.m. CT, (iii) clarify that intraday margin calls would be issued at a single intraday collection time, and any margin calls outside of the collection time must be approved by the Chief Financial Risk Officer, Chief Executive Officer, Chief Operations Officer, or Chief Risk Officer, (iv) provide FRM Officers with discretion on whether to issue or not issue a margin call based on certain facts and circumstances, while also requiring the documentation of such decisions, and (v) extend the implementation timeframe from within 120 days of approval to September 2025 to align with the projected Ovation release date, and potentially provide more time for industry participants to prepare for the proposed rule change.

Overall, we appreciate OCC's decision in the Amended Proposal to narrow the window over which the formula used to calculate the Intraday Risk Charge will be applied, which will result in a reduction of total margin collected versus the Initial Proposal by approximately $870 million. We also appreciate that OCC included actual dollar amounts regarding the impact of the proposal on various segments of the listed options market, as this information helps SIFMA members better understand the potential monetary impact they would face under the Amended Proposal.

Similarly, we also appreciate OCC's decision in the Amended Proposal to limit the issuance of margin calls to a single intraday collection time at or around 12:00 p.m. CT and to specify the circumstances under which such a call would be made, which is designed to provide more certainty to OCC Clearing Members regarding their intraday margin obligations. Under the Amended Proposal, an OCC Officer may issue a margin call at this time if an OCC Clearing Member's verified intraday risk increase is greater than three standard deviations from the previous month's average daily peak intraday risk increases. At the same time, we recognize OCC's need to protect itself from intraday risk that might arise outside of the 90-minute window, so we acknowledge OCC's decision to also monitor for breaches of the three standard deviation threshold outside of this window and to continue to have authority to issue an intraday margin call under Rule 609, as is permitted today subject to appropriate senior OCC officer approval.[8] In the spirit of making sure OCC is appropriately protected from intraday risks, we also suggest

[7] See (https://www.sec.gov/comments/sr-occ-2024-010/srocc2024010.htm).

[8] While OCC references a three standard deviation measure in the Amended Proposal to issue margin calls outside of this designated time, SIFMA understands that OCC currently has broad discretion under Rule 609 to issue margin calls, subject to appropriate senior OCC officer approval. We therefore ask OCC to provide more specificity regarding the circumstances under which margin calls would be issued under Rule 609 outside of the 12:00 p.m. CT collection time to aid market participants in planning for these potential additional margin calls.

that OCC monitor trading behavior immediately prior to the proposed 12:00 p.m. CT margin call time, as well as following the end of the 90-minute window at 1:30 p.m. CT, and if it observes persistent activity that appears to be designed to avoid such a margin call, consider whether further action is needed.

However, we note that the other changes in the Amended Proposal are minor in nature, and do not seem to address the comments we provided in our October Letter. For instance, in the case of extending the implementation date to September 2025, it may not be meaningful given that the Commission now has until April 9, 2025 to act on the Amended Proposal.[9] If the Amended Proposal were approved close to this date, SIFMA members would only have approximately 140-150 days, or an extra month, to implement the proposal as compared with the 120-day period included in the Initial Proposal.

SIFMA also understands that there may have been limited vetting of the Amended Proposal with OCC members and their clients who are experts in risk management. Such an approach is a missed opportunity to improve the Amended Proposal and appears inconsistent with OCC's obligation in Rule 17Ad-25 under the Securities Exchange Act of 1934 ("Exchange Act") to have a board that represents not only the views of its owners and Clearing Members, but also the views of the "the range of customers and clients" the Clearing Members serve. We also note that in connection with the Commission's order instituting proceedings ("OIP") to determine whether to approve or disapprove the Initial Proposal, OCC had an opportunity to respond to comments (including our October Letter).[10]

While we appreciate OCC's change in the Amended Proposal to limit the window in which the Intraday Risk Charge would be calculated, SIFMA notes that this change still does not address the reality identified in our October Letter that executing brokers may not receive client allocations until the end of the trading day. As indicated, executing brokers can work to try to get their clients to change their practice and provide allocations prior to this window, but such an effort will take time and is not likely to be 100% successful. In connection with the move to T+1 settlement, even the Commission recognized the challenges the industry faced with the implementation of new Rule 15c6-2, and thus only required allocations to be received by broker-dealers by 9 p.m. ET on trade date. Through the Amended Proposal, OCC is effecting a change to market practice by placing executing brokers in the position of needing to receive allocations from their clients intraday, which is ultimately beyond their control, especially for smaller firms.

Accordingly, we reiterate our call from our October Letter for OCC to exempt executing brokers that are OCC Clearing Members (i.e., Executing Clearing Members) with CMTA capabilities from any Intraday Risk Charge, since the CMTA process would provide a

[9] See Release No. 34-102358 (Feb. 5, 2025), 90 FR 9352 (Feb. 11, 2025).

[10] See Release No. 34-101551 (Nov. 7, 2024), 89 FR 90155 (No. 14, 2024). OCC submitted a response to comments on September 18, 2024, but did not submit a response to any comments received after this date. In the Commission's OIP, OCC was provided with an opportunity to submit rebuttal comments by December 13, 2024, but did not do so.

mechanism to transfer positions to other OCC Clearing Members in the event such an executing broker experiences a default scenario.[11] If OCC were to consider this approach, further discussion would need to occur regarding the mechanics of the CMTA transfers, including the identity of the firm or firms that would receive the positions and ultimately the responsibility for any margin needed to cover the intraday risks generated by the Executing Clearing Members. We also call on OCC to explore other ways to address and alleviate the impact of the Amended Proposal on executing brokers that are not OCC Clearing Members, while similarly addressing the ultimate responsibility for any margin needed to cover the intraday risks generated by these executing brokers.

OCC's change to shorten the window in which the Intraday Risk Charge is calculated also does not address, for example, the suggestion from our October Letter that OCC calculate the Intraday Risk Charge using a tiered framework to distinguish between the size of activity of participants on (i) "normal" trading activity days (Tier 1) and (ii) periods of expected increased trading levels, such as monthly and quarterly options expirations dates (Tier 2). In fact, this suggestion does not seem to be addressed at all in the Amended Proposal. As we noted, this approach would help more accurately tailor the Intraday Risk Charge to Clearing Members' trading activity profile by performing separate calculations based on member size or adjusting its calculation to account for days of expected elevated trading activity. We offered to work collaboratively with OCC on such an approach, though OCC did not take us up on our offer.

Further Recommendations

In our October Letter, SIFMA expressed concerns that if the Initial Proposal's Intraday Risk Charge approach were to be adopted, it would become permanently hard-wired into OCC's risk management framework and OCC would not change it in the future. These concerns have only increased with OCC's action in submitting the Amended Proposal with minimal changes. Instead of withdrawing the Initial Proposal and filing the Amended Proposal as a new rule filing, OCC chose to amend the Initial Proposal rather than restarting the rule filing process with a new filing.[12]

Given these actions, as well as the potential negative impact the Amended Proposal would have on the listed options market as set forth in our October Letter, it is critically important that OCC adopt a phased approach in which it would immediately apply the Intraday Risk Charge to only 0DTE activity of its Clearing Members and then consider expanding it to cover other trading activity. OCC characterizes the filing as being designed to address the risks associated with 0DTE trading activity, noting, for example, that "[b]ecause OCC's STANS

[11] As noted in comments on the Initial Proposal, any margin collected by OCC from executing brokers for non-0DTE options activity could potentially be subject to double-margining under the Amended Proposal – once at the executing broker on trade date and then again at their OCC Clearing Member after the position is transferred to it.

[12] See supra note 4. Under the Commission's new rule governing intraday margining for covered clearing agencies like OCC, OCC has until April 17, 2025 to submit "with the Commission any proposed rule changes required under Rule 19b-4 and any Advance Notices required under Title VIII of the Dodd-Frank Act and Rule 19b-4(n)," and the proposed rule changes and the Advance Notices must be effective by December 15, 2025.

margin calculation is based on end-of-day positions, the margin requirement may not account for 0DTE options trading 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."[13] While OCC also notes that the filing would address intraday trading activity in other products, OCC fails to note that products other than listed options account for only a very small portion of OCC's clearing business, and thus presumably a very small portion of the unmargined intraday risks it currently faces.

As currently constructed, the Amended Proposal would not be limited to just the acknowledged risks OCC faces from 0DTE listed options trading activity, but it would cover all listed options trading activity, as well as all other activity that OCC clears including futures and stock loan activity. Thus, for example, the proposal would cover market maker activity in which they are providing liquidity and facilitating trading in non-0DTE listed options. As we noted in the October Letter, market makers are critical to the proper functioning of the listed options market, and while they are not trading directly as OCC Clearing Members, OCC needs to fully consider how options market liquidity might be impacted by the pass-through of margin charges to them by their Clearing Members under the Amended Proposal. Indeed, the changes included in the Amended Proposal provide the least benefit to options market makers as shown in the chart included in the proposal, even though they are critical to options market quality.[14] OCC in the Amended Proposal does not appear to address any of commenters' concerns related to the significant impact of the Amended Proposal on market makers, including our suggestion that OCC Clearing Members that clear market makers (and their market maker clients) be provided with better data and information so that they are better able to understand, predict, and manage their trading activity as it relates to the Intraday Risk Charge.[15]

In light of these factors, SIFMA therefore calls upon OCC to adopt a phased approach in which it would initially apply the Intraday Risk Charge, as contemplated in the Amended Proposal, to only 0DTE activity of its Clearing Members. This would allow OCC to address the primary intraday risk it has identified in the proposal, while limiting the likely broader impact of the proposal on the listed options market. Such a phased approach would also provide OCC with time to study the impact of the Intraday Risk Charge, and to consider expanding it in a thoughtful and deliberate manner if needed to cover other listed options trading activity and other products cleared by OCC. Given the potential impact of the Intraday Risk Charge on executing brokers, we also ask that OCC develop monitoring functionality that is designed to capture behavior in which firms engage in a pattern or practice of shifting positions to other firms during the window in which the Intraday Risk Charge would be calculated. The Amended Proposal does not discuss this behavior as a possibility and whether the OCC would monitor or take steps to address it.

[13] 90 FR at 7724.

[14] 90 FR at 7727.

[15] As noted in our October Letter, we similarly request that OCC provide Clearing Members with the ability to monitor their current risk exposure on a real time basis (at least hourly), similar to the functionality other U.S. central counterparties provide to their clearing members.

As noted, we continue to remain extremely concerned that OCC will never update or change the Intraday Risk Charge once it has been implemented even when it has the capability to do so, despite the blunt nature of the charge in its current form or its potential impact on the listed options market. In this regard, while currently under consideration, OCC has not updated the weightings in its allocation methodology to determine Clearing Member contributions to its default fund since 2018 despite the significant changes in the listed options market since that time. We understand that OCC's new Ovation clearing system will become operational in September 2025. We also understand that the new system will provide OCC with much better risk monitoring capabilities, and that while not functional on day one, it will soon allow OCC to monitor the intraday risks it faces in real-time from its Clearing Members. When OCC has this capability, which we expect it reasonably should have within two years from the implementation date of the Intraday Risk Charge, it is critical that OCC sunset the Intraday Risk Charge approach set forth in the Amended Proposal and adopt a new, much more risk-sensitive intraday margining approach. We would be happy to work with OCC on this approach. This new, more risk-sensitive approach to intraday margining should place OCC in a similar category as other central counterparties such as the Chicago Mercantile Exchange as far as their real-time intraday margining capabilities.

Unaddressed Comments

In addition to the unaddressed items discussed above, we note that some of our comments and suggestions from our October Letter, as well as from other market participants, have not been addressed. We kindly request OCC respond to these comments, with a particular focus on:

- Whether firms' real-time risk monitoring systems might or could alleviate concerns OCC faces from 0DTE trading activity.
- Concerns expressed by commenters such as Cboe regarding the impact of the proposal on the listed options market.
- The potential impact or burden on competition the proposal may have on various segments of the listed options market (i.e., OCC Clearing Members, executing brokers, and market makers), as discussed in our October Letter. As the proposal relates to executing brokers (including OCC Executing Clearing Members), OCC should consider and address the costs they would incur to establish intraday allocation functionality and lines of credit or similar funding mechanisms to help them manage any Intraday Risk Charges to which they may be subject.
- The concept of paying interest on OCC margin deposits.
- Any OCC plans to roll out a more tailored, risk-sensitive intraday margining approach with Ovation.
- The proposal's potential for deterring Clearing Members from participating in default auctions.
- Whether OCC has any plans to establish functionality that would allow OCC Clearing Members to better understand which of their clearing clients are generating the highest intraday risk exposures.

We look forward to OCC's responses to these items.

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We appreciate the opportunity to submit these comments on the Amended Proposal. As discussed, we continue to support OCC's need to address the intraday risks it faces in clearing listed options transactions, particularly from 0DTE transactions. However, we call upon OCC to roll out the Intraday Risk Charge in phases and then ultimately sunset it when OCC is able to develop a more robust, tailored, and risk-sensitive intraday margining system in its new clearing system Ovation, which we would expect should take no more than two years. We also ask OCC to address commenters' unaddressed suggestions and concerns regarding the Initial Proposal. If you have any questions or need any additional information, please contact Ellen Greene at (212) 313-1287 or Joe Corcoran at (202) 962-7383.

Sincerely,

Ellen Greene

Joseph P. Corcoran

Ellen Greene
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