



November 16, 2015

VIA ELECTRONIC MAIL

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

Re: Rule Filing SR-OCC-2015-017 Rule Certification

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Commodity Futures Trading Commission Regulation (“CFTC”) 40.6, enclosed is a copy of the above-referenced rule filing submitted by The Options Clearing Corporation (“OCC”). The date of implementation of the rule is at least 10 business days following receipt of the rule filing by the CFTC or the date the proposed rule is approved by the Securities and Exchange Commission (the “SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (the “Exchange Act”). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act.

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

Explanation and Analysis

An approach employed by OCC to mitigate pro-cyclicality within its margin methodology (“STANS”)¹ is to estimate market volatility based on current market conditions (“current market estimate”) and compare this current market estimate to a long-run estimate of market volatility (“long-run market estimate”). This comparison utilizes certain market benchmarks (or factors), which serve as proxies for the overall volatility of an asset class or group of products. If the long-run market estimate for a factor is found to be greater than the current market estimate, the volatility estimates for all products tied to that factor are adjusted (or scaled) up in a manner proportionate to the relationship between the current market volatility and the long-run market volatility for that factor.

The proposed change is intended to enhance the process used by OCC to mitigate pro-cyclicality by providing for the capability to increase the number of scale factors used within STANS in cases where a more appropriate proxy has been identified for a particular asset class

¹ A detailed description of the STANS methodology is available at <http://optionsclearing.com/risk-management/margins/>.

or group of products to measure the relationship between current vs. long-run market volatility. Current STANS includes a single factor (“uniform scale factor”), which serves as the proxy for the equity asset class. This uniform scale factor is calibrated based on changes in the volatility of the Standard & Poor’s 500® Index (“SPX”) and applied to all “equity-based products” in the manner described above. Currently, the uniform scale factor is the only scale factor used in STANS.

Summary of the Proposed Change

OCC believes that the current approach to scale factors in STANS would be improved by providing the functionality to establish multiple scale factors intended to more accurately measure the relationship for between current and long-run market volatility with proxies that correlate more closely to groups of products within an asset class (e.g., Russell 1000 Index and Russell 1000 ETFs), which would enhance the accuracy of the margin requirements in STANS.² Furthermore, OCC can improve the resiliency of its risk management framework for non-equity asset classes where open interest cleared by OCC has grown, but where scale factors currently do not exist. By incorporating this process to scale margin coverages when current market volatility exceeds historically heightened levels that have been established to mitigate pro-cyclicality, OCC’s margin methodology is able to expeditiously respond to severe changes in market volatility and thus better protect the integrity of our financial markets.

Current Uniform Scale Factor for Equity-Based Products

The uniform scale factor is calculated as a ratio of OCC’s estimates of current market volatility and long-run volatility forecasts for the SPX. To determine the estimate of current market volatility, OCC relies on daily pricing information for equity securities and exchange-traded funds over a twenty-four month period ending with the last day of the immediately preceding month. To populate this twenty-four month time series, OCC relies on external vendors, with which it maintains redundant relationships for resiliency, to adjust the daily pricing information to account for corporate actions involving these securities. This daily pricing information is received from its vendor(s) after the close of each month, at which time OCC updates its twenty-four month time series adding the new month and dropping the last month of data. This process of updating the time series on a monthly basis is referred to as a “pending” time series due to batch process used to update the time series. The long-run time series used by the uniform scale factor is updated on a daily basis (i.e., non-pending update) with pricing information for the SPX dating back to January 1, 1946. OCC calculates the uniform scale factor each business day by comparing the current market volatility, using pending price updates to the long-run time series using non-pending, or current, market prices.

² In this case, accuracy is measured against backtesting results. An accurate 99% value-at-risk model should expect exceedances at a rate of 1% per independent trial. If the exceedance rate is too high, the model is missing key risks; if the exceedance rate is too low, the model is not consistent with the organization’s risk appetite. To the extent that the conditional variances of not all relevant risk factors move in lock-step to the conditional variance of SPX, multiple scale factors offers the opportunity to be more accurate.

The uniform scale factor is applied to all equity products and is used to adjust individual equity current market volatility estimates on a daily basis based on the comparison of the current market volatility and the long-run volatility estimate, which is updated daily. Should it be observed that the current market volatility is less than the long-run volatility, all products tied to the uniform scale factor will be adjusted higher based on the ratio of the long-run volatility estimate to the current market volatility estimate to account for the observed change in volatility. In addition, the uniform scale factor is also used to account for the fact that the distribution of returns for the SPX has a “fat tail” because the scale factor seeks to match estimates of expected margin shortfalls under the scenarios in STANS for a hypothetical long position in the SPX.

The uniform scale factor resulting from the calculations described above is applied as a multiplier to hypothetical returns on a long portfolio of equities produced during the Monte Carlo market scenarios run within STANS. By “scaling up” hypothetical returns in this way, the uniform scale factor relies on an assumption that more recent behavior of SPX returns will provide an appropriate proxy for the volatility in equity price returns that occur between monthly updates of price data for the pending short-run time series. Accordingly, the uniform scale factor helps OCC set margin requirements that account for this proxy to ensure that Clearing Members maintain margin assets that would be sufficient in light of historical volatility of the SPX.

Changes to the Uniform Scale Factor for Equity-Based Products

The average longer-run volatility forecast used in OCC’s computation of the uniform scale factor currently relies on daily pricing information for component securities of the SPX dating back to January of 1946. This time series predates, however, the 1957 introduction of the SPX. To accurately account for the behavior of SPX returns only since the inception of the index, OCC proposes to adjust the longer-run volatility forecast so that it would rely only on the post-1957 information. OCC believes that this approach would reduce model risk and improve the quality of the data by avoiding the need to make assumptions related to the composition of the index before its actual development.³

As an additional mitigation against pro-cyclicality, OCC intends to introduce a floor to the monthly process for creating return scenarios for the equity securities in the current market volatility estimation by incorporating a sample variance for the time series in addition to the GARCH variance currently utilized. OCC believes that by incorporating the sample variance as a floor would mitigate pro-cyclicality in the relevant return scenarios because it would result in a higher estimate of volatility during periods of relatively lower market volatility if only the GARCH variance was used.

³ Model risk, in the sense of material exposure to the consequences of poor assumptions, is reduced by making models adhere accurately to observed phenomena. In this case, by reducing the role of the uniform scale factor as a proxy between monthly updates of univariate models for risk factors and by allowing certain risk factors to bypass the monthly update process, as described below, OCC believes that this proposed change would reduce model risk.

New Scale Factors for Equity-Based Products

To more accurately measure the relationship between current and long-run market volatility with proxies that correlate more closely to certain products carried within the equity asset class, OCC proposes to expand the number of scale factors to include (1) Russell 2000® Index (12/29/1978); (2) Dow Jones Industrial Average Index (9/23/1997); (3) NASDAQ-100 Index (2/4/1985) and (4) S&P 100 Index (1/2/1976). While the SPX scale factor will continue to serve as the default scale factor for most equity products, the index options, futures and ETFs which map to these indexes will be assigned to these scale factors and whose current volatility estimates will be adjusted based on the aforementioned methodology.

Periodically, OCC will evaluate the performance and use of these scale factors and determine if changes to the mapping of products to scale factors or the addition of new scale factors are warranted. Prior to any changes being implemented OCC would present its findings to the Enterprise Risk Management Committee and obtain approval to make the recommended enhancements.

New Scale Factors for Non-Equity-Based Products

In addition to equity products, OCC has observed a growth in the open interest in other asset classes, most notably the volatility asset class and Treasury securities, which an equity-based scale factor would not be applicable based on negligible correlations observed. To be able to monitor and respond to material changes in the volatility of these asset classes while also mitigating pro-cyclicality, OCC proposes to introduce two additional scale factors in STANS: one related to Treasury securities and one related to volatility contracts.

For these asset classes, different from equities, volatility characteristics are differentiated based on the term of an instrument. As a result, the implementation of the scale factors will be different than the implementation for the equity asset class. Individual products will be linked within STANS to a particular scale factor not only in accordance with price correlations, but will also consider term structure (i.e., non-equity futures contracts and Treasury securities of different maturities).

The scale factor(s) applicable to Treasury securities will utilize a yield curve model that is used to project U.S. Treasury security returns. This would serve to provide the underlying data set, and the time series would run from February 4, 2008. The scale factor(s) applicable to implied volatility indexes, the data set would consist of index closing prices for VIX with a time series would beginning in October 1, 2004. Applying scale factors to hypothetical returns in these asset classes, as is done today for equity-based products, will help ensure that OCC's margin requirements capture shifts in market volatility in these non-equity asset classes, and OCC believes these enhancements would generally promote a more accurate approach to margining within STANS,⁴ particularly when markets are volatile.

⁴ See FN. 2 *supra*.

Impact Analysis

Based on simulation testing for the period from January 14, 2015, to March 6, 2015, risk margins (i.e., expected shortfall plus the concentration/dependence add-on) would have been 5.2% higher in aggregate as a consequence of these changes. This is mostly due to higher coverage for the Russell 2000 Index and index ETF products under the new methodology. The absolute variation in risk margins relative to production was greater than 5% of Clearing Member capital for about 11% of clearing member-days over the simulation period. In order to inform Clearing Members of the proposed change, OCC provided a general update at a recent OCC Roundtable⁵ meeting and would continue to provide updates at Roundtable meetings on a quarterly basis going forward. In addition, OCC would publish an Information memorandum to all Clearing Members describing the proposed change and will provide additional periodic Information memoranda updates prior to the implementation date. OCC would also provide at least thirty days prior notice to Clearing Members before implementing the change. Additionally, OCC would perform targeted and direct outreach with Clearing Members that would be most impacted by the proposed change and OCC would work closely with such Clearing Members to coordinate the implementation and associated funding for such Clearing Members resulting from the proposed change.⁶ Finally, OCC would discuss the proposed change with its cross-margin clearing house partners to ensure they are aware of the proposed change.⁷

OCC reviewed the derivatives clearing organization ("DCO") core principles ("Core Principles") as set forth in the Act. During this review, OCC identified the following Core Principles as potentially being impacted:

Risk Management. OCC ensures that it possesses the ability to manage the risks associated with discharging its responsibilities as a DCO by using appropriate tools and procedures. As such, OCC believes that the proposed rule change would permit OCC to effectively use its risk models when market volatility increases beyond historically observed levels. Such risk models reduce the risk that clearing member margin assets would be insufficient should OCC need to use such assets to close-out the positions of a defaulting clearing member thereby ensuring OCC meets its financial obligations to its clearing members.

⁵ The OCC Roundtable was established to bring Clearing Members, exchanges and OCC together to discuss industry and operational issues. It is comprised of representatives of the senior OCC staff, participant exchanges and Clearing Members, representing the diversity of OCC's membership in industry segments, OCC-cleared volume, business type, operational structure and geography.

⁶ Specifically, OCC will discuss with those Clearing Members how they plan to satisfy any increase in their margin requirements associated with the proposed change.

⁷ Cross-margin accounts are not uniquely affected by the proposed change and would be affected by the proposed change in the same manner as any other type of OCC account.

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Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

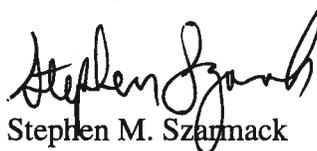
OCC hereby certifies that notice of this rule filing has been be given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Item 1 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,



Stephen M. Szamack
Vice President and Associate General Counsel

Enclosure

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Text of the Proposed Rule Change

This proposed rule change by The Options Clearing Corporation (“OCC”) would modify the current process for systematically monitoring market conditions and performing adjustments to its margin coverage when current market volatility increases beyond historically observed levels. The proposed rule change does not require any changes to the text of OCC’s By-Laws or Rules.

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved for filing with the Commission by the Board at a meeting held on March 6, 2014.

Questions should be addressed to Stephen Szarmack, Vice President and Associate General Counsel, at (312) 322-4802.

Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

A. Purpose

An approach employed by OCC to mitigate pro-cyclicality within its margin methodology (“STANS”)¹ is to estimate market volatility based on current market conditions (“current market estimate”) and compare this current market estimate to a long-run estimate of market volatility (“long-run market estimate”). This comparison utilizes certain market benchmarks (or factors), which serve as proxies for the overall volatility of an asset class or group of products. If the

¹ A detailed description of the STANS methodology is available at <http://optionsclearing.com/risk-management/margins/>.

long-run market estimate for a factor is found to be greater than the current market estimate, the volatility estimates for all products tied to that factor are adjusted (or scaled) up in a manner proportionate to the relationship between the current market volatility and the long-run market volatility for that factor.

The proposed change is intended to enhance the process used by OCC to mitigate procyclicality by providing for the capability to increase the number of scale factors used within STANS in cases where a more appropriate proxy has been identified for a particular asset class or group of products to measure the relationship between current vs. long-run market volatility. Current STANS includes a single factor (“uniform scale factor”), which serves as the proxy for the equity asset class. This uniform scale factor is calibrated based on changes in the volatility of the Standard & Poor’s 500® Index (“SPX”) and applied to all “equity-based products” in the manner described above. Currently, the uniform scale factor is the only scale factor used in STANS.

Summary of the Proposed Change

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Russell 1000 ETFs), which would enhance the accuracy of the margin requirements in STANS.² Furthermore, OCC can improve the resiliency of its risk management framework for non-equity asset classes where open interest cleared by OCC has grown, but where scale factors currently do not exist. By incorporating this process to scale margin coverages when current market volatility exceeds historically heightened levels that have been established to mitigate pro-cyclicality, OCC's margin methodology is able to expeditiously respond to severe changes in market volatility and thus better protect the integrity of our financial markets.

Current Uniform Scale Factor for Equity-Based Products

The uniform scale factor is calculated as a ratio of OCC's estimates of current market volatility and long-run volatility forecasts for the SPX. To determine the estimate of current market volatility, OCC relies on daily pricing information for equity securities and exchange-traded funds over a twenty-four month period ending with the last day of the immediately preceding month. To populate this twenty-four month time series, OCC relies on external vendors, with which it maintains redundant relationships for resiliency, to adjust the daily pricing information to account for corporate actions involving these securities. This daily pricing information is received from its vendor(s) after the close of each month, at which time OCC

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updates its twenty-four month time series adding the new month and dropping the last month of data. This process of updating the time series on a monthly basis is referred to as a “pending” time series due to batch process used to update the time series. The long-run time series used by the uniform scale factor is updated on a daily basis (i.e., non-pending update) with pricing information for the SPX dating back to January 1, 1946. OCC calculates the uniform scale factor each business day by comparing the current market volatility, using pending price updates to the long-run time series using non-pending, or current, market prices.

The uniform scale factor is applied to all equity products and is used to adjust individual equity current market volatility estimates on a daily basis based on the comparison of the current market volatility and the long-run volatility estimate, which is updated daily. Should it be observed that the current market volatility is less than the long-run volatility, all products tied to the uniform scale factor will be adjusted higher based on the ratio of the long-run volatility estimate to the current market volatility estimate to account for the observed change in volatility. In addition, the uniform scale factor is also used to account for the fact that the distribution of returns for the SPX has a “fat tail” because the scale factor seeks to match estimates of expected margin shortfalls under the scenarios in STANS for a hypothetical long position in the SPX.

The uniform scale factor resulting from the calculations described above is applied as a multiplier to hypothetical returns on a long portfolio of equities produced during the Monte Carlo

conditional variance of SPX, multiple scale factors offers the opportunity to be more accurate.

market scenarios run within STANS. By “scaling up” hypothetical returns in this way, the uniform scale factor relies on an assumption that more recent behavior of SPX returns will provide an appropriate proxy for the volatility in equity price returns that occur between monthly updates of price data for the pending short-run time series. Accordingly, the uniform scale factor helps OCC set margin requirements that account for this proxy to ensure that Clearing Members maintain margin assets that would be sufficient in light of historical volatility of the SPX.

Changes to the Uniform Scale Factor for Equity-Based Products

The average longer-run volatility forecast used in OCC’s computation of the uniform scale factor currently relies on daily pricing information for component securities of the SPX dating back to January of 1946. This time series predates, however, the 1957 introduction of the SPX. To accurately account for the behavior of SPX returns only since the inception of the index, OCC proposes to adjust the longer-run volatility forecast so that it would rely only on the post-1957 information. OCC believes that this approach would reduce model risk and improve the quality of the data by avoiding the need to make assumptions related to the composition of the index before its actual development.³

As an additional mitigation against pro-cyclicality, OCC intends to introduce a floor to

³ Model risk, in the sense of material exposure to the consequences of poor assumptions, is reduced by making models adhere accurately to observed phenomena. In this case, by reducing the role of the uniform scale factor as a proxy between monthly updates of univariate models for risk factors and by allowing certain risk factors to bypass the monthly update process, as described below, OCC believes that this proposed change would reduce model risk.

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New Scale Factors for Equity-Based Products

To more accurately measure the relationship between current and long-run market volatility with proxies that correlate more closely to certain products carried within the equity asset class, OCC proposes to expand the number of scale factors to include (1) Russell 2000® Index (12/29/1978); (2) Dow Jones Industrial Average Index (9/23/1997); (3) NASDAQ-100 Index (2/4/1985) and (4) S&P 100 Index (1/2/1976). While the SPX scale factor will continue to serve as the default scale factor for most equity products, the index options, futures and ETFs which map to these indexes will be assigned to these scale factors and whose current volatility estimates will be adjusted based on the aforementioned methodology.

Periodically, OCC will evaluate the performance and use of these scale factors and determine if changes to the mapping of products to scale factors or the addition of new scale factors are warranted. Prior to any changes being implemented OCC would present its findings to the Enterprise Risk Management Committee and obtain approval to make the recommended enhancements.

New Scale Factors for Non-Equity-Based Products

In addition to equity products, OCC has observed a growth in the open interest in other asset classes, most notably the volatility asset class and Treasury securities, which an equity-based scale factor would not be applicable based on negligible correlations observed. To be able to monitor and respond to material changes in the volatility of these asset classes while also mitigating pro-cyclicality, OCC proposes to introduce two additional scale factors in STANS: one related to Treasury securities and one related to volatility contracts.

For these asset classes, different from equities, volatility characteristics are differentiated based on the term of an instrument. As a result, the implementation of the scale factors will be different than the implementation for the equity asset class. Individual products will be linked within STANS to a particular scale factor not only in accordance with price correlations, but will also consider term structure (i.e., non-equity futures contracts and Treasury securities of different maturities).

The scale factor(s) applicable to Treasury securities will utilize a yield curve model that is used to project U.S. Treasury security returns. This would serve to provide the underlying data set, and the time series would run from February 4, 2008. The scale factor(s) applicable to implied volatility indexes, the data set would consist of index closing prices for VIX with a time series would beginning in October 1, 2004. Applying scale factors to hypothetical returns in these asset classes, as is done today for equity-based products, will help ensure that OCC's margin requirements capture shifts in market volatility in these non-equity asset classes, and

OCC believes these enhancements would generally promote a more accurate approach to margining within STANS,⁴ particularly when markets are volatile.

Impact Analysis

Based on simulation testing for the period from January 14, 2015, to March 6, 2015, risk margins (i.e., expected shortfall plus the concentration/dependence add-on) would have been 5.2% higher in aggregate as a consequence of these changes. This is mostly due to higher coverage for the Russell 2000 Index and index ETF products under the new methodology. The absolute variation in risk margins relative to production was greater than 5% of Clearing Member capital for about 11% of clearing member-days over the simulation period.

In order to inform Clearing Members of the proposed change, OCC provided a general update at a recent OCC Roundtable⁵ meeting and would continue to provide updates at Roundtable meetings on a quarterly basis going forward. In addition, OCC would publish an Information memorandum to all Clearing Members describing the proposed change and will provide additional periodic Information memoranda updates prior to the implementation date. OCC would also provide at least thirty days prior notice to Clearing Members before implementing the change. Additionally, OCC would perform targeted and direct outreach with

⁴ See FN. 2 *supra*.

⁵ The OCC Roundtable was established to bring Clearing Members, exchanges and OCC together to discuss industry and operational issues. It is comprised of representatives of the senior OCC staff, participant exchanges and Clearing Members, representing the diversity of OCC's membership in industry segments, OCC-cleared volume, business type, operational structure and geography.

Clearing Members that would be most impacted by the proposed change and OCC would work closely with such Clearing Members to coordinate the implementation and associated funding for such Clearing Members resulting from the proposed change.⁶ Finally, OCC would discuss the proposed change with its cross-margin clearing house partners to ensure they are aware of the proposed change.⁷

B. Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”),⁸ because it would assure the safeguarding of securities and funds in the custody and control of OCC by enhancing the current approach for monitoring market conditions and performing adjustments to OCC’s margin coverage when current volatility increase beyond historically observed levels. The proposed rule change would therefore reduce the risk that Clearing Member margin assets would be insufficient should OCC need to use such assets to close-out the positions of a defaulted Clearing Member. Further, the proposed rule change would make it less likely that the default of a Clearing Member would stress the financial resources available to OCC, which include mutualized resource funds deposited by non-defaulting Clearing Members as Clearing Fund.

⁶ Specifically, OCC will discuss with those Clearing Members how they plan to satisfy any increase in their margin requirements associated with the proposed change.

⁷ Cross-margin accounts are not uniquely affected by the proposed change and would be affected by the proposed change in the same manner as any other type of OCC account.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

OCC believes that the proposed rule change is also consistent with Rule 17Ad-22(b)(2)⁹ because, for the same reason, it would limit OCC's credit exposures to its participants under normal market conditions and use risk-based models and parameters to set OCC's margin requirements. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.¹⁰ The proposed rule change would allow OCC to adjust Clearing Member margin requirements when current volatility increases beyond historical levels. OCC believes that the proposed rule change would not unfairly inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another user because the proposed rule change would be applied uniformly to all Clearing Members in establishing their margin requirements.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and would not impose a burden on competition.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the

⁹ 17 CFR 240.17Ad-22(b)(2).

¹⁰ 15 U.S.C. 78q-1(b)(3)(I).

proposed rule change and none have been received.

Item 6. Extension of Time Period for Commission Action

Not applicable.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

Item 8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Not applicable.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1A. Completed Notice of Proposed Rule Change for publication in the Federal Register.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

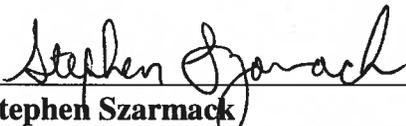
By:  _____
Stephen Szarmack
Vice President and Associate General Counsel

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-[_____]; File No. SR-OCC-2015-017)

September 16, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Concerning Adjustment to The Options Clearing Corporation's Margin Coverage When Market Volatility Increases Beyond Historically Observed Levels

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder² notice is hereby given that on September 16, 2015, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

This proposed rule change by The Options Clearing Corporation ("OCC") would modify the current process for systematically monitoring market conditions and performing adjustments to its margin coverage when current market volatility increases beyond historically observed levels.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

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

1. Purpose

An approach employed by OCC to mitigate pro-cyclicality within its margin methodology ("STANS")³ is to estimate market volatility based on current market conditions ("current market estimate") and compare this current market estimate to a long-run estimate of market volatility ("long-run market estimate"). This comparison utilizes certain market benchmarks (or factors), which serve as proxies for the overall volatility of an asset class or group of products. If the long-run market estimate for a factor is found to be greater than the current market estimate, the volatility estimates for all products tied to that factor are adjusted (or scaled) up in a manner proportionate to the relationship between the current market volatility and the long-run market volatility for that factor.

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Current Uniform Scale Factor for Equity-Based Products

The uniform scale factor is calculated as a ratio of OCC's estimates of current market volatility and long-run volatility forecasts for the SPX. To determine the estimate of current market volatility, OCC relies on daily pricing information for equity securities and exchange-traded funds over a twenty-four month period ending with the last day of the immediately

⁴ In this case, accuracy is measured against backtesting results. An accurate 99% value-at-risk model should expect exceedances at a rate of 1% per independent trial. If the exceedance rate is too high, the model is missing key risks; if the exceedance rate is too low, the model is not consistent with the organization's risk appetite. To the extent that the conditional variances of not all relevant risk factors move in lock-step to the conditional variance of SPX, multiple scale factors offers the opportunity to be more accurate.

preceding month. To populate this twenty-four month time series, OCC relies on external vendors, with which it maintains redundant relationships for resiliency, to adjust the daily pricing information to account for corporate actions involving these securities. This daily pricing information is received from its vendor(s) after the close of each month, at which time OCC updates its twenty-four month time series adding the new month and dropping the last month of data. This process of updating the time series on a monthly basis is referred to as a “pending” time series due to batch process used to update the time series. The long-run time series used by the uniform scale factor is updated on a daily basis (i.e., non-pending update) with pricing information for the SPX dating back to January 1, 1946. OCC calculates the uniform scale factor each business day by comparing the current market volatility, using pending price updates to the long-run time series using non-pending, or current, market prices.

The uniform scale factor is applied to all equity products and is used to adjust individual equity current market volatility estimates on a daily basis based on the comparison of the current market volatility and the long-run volatility estimate, which is updated daily. Should it be observed that the current market volatility is less than the long-run volatility, all products tied to the uniform scale factor will be adjusted higher based on the ratio of the long-run volatility estimate to the current market volatility estimate to account for the observed change in volatility. In addition, the uniform scale factor is also used to account for the fact that the distribution of returns for the SPX has a “fat tail” because the scale factor seeks to match estimates of expected margin shortfalls under the scenarios in STANS for a hypothetical long position in the SPX.

The uniform scale factor resulting from the calculations described above is applied as a multiplier to hypothetical returns on a long portfolio of equities produced during the Monte Carlo market scenarios run within STANS. By “scaling up” hypothetical returns in this way, the

uniform scale factor relies on an assumption that more recent behavior of SPX returns will provide an appropriate proxy for the volatility in equity price returns that occur between monthly updates of price data for the pending short-run time series. Accordingly, the uniform scale factor helps OCC set margin requirements that account for this proxy to ensure that Clearing Members maintain margin assets that would be sufficient in light of historical volatility of the SPX.

Changes to the Uniform Scale Factor for Equity-Based Products

The average longer-run volatility forecast used in OCC's computation of the uniform scale factor currently relies on daily pricing information for component securities of the SPX dating back to January of 1946. This time series predates, however, the 1957 introduction of the SPX. To accurately account for the behavior of SPX returns only since the inception of the index, OCC proposes to adjust the longer-run volatility forecast so that it would rely only on the post-1957 information. OCC believes that this approach would reduce model risk and improve the quality of the data by avoiding the need to make assumptions related to the composition of the index before its actual development.⁵

As an additional mitigation against pro-cyclicality, OCC intends to introduce a floor to the monthly process for creating return scenarios for the equity securities in the current market volatility estimation by incorporating a sample variance for the time series in addition to the GARCH variance currently utilized. OCC believes that by incorporating the sample variance as

⁵ Model risk, in the sense of material exposure to the consequences of poor assumptions, is reduced by making models adhere accurately to observed phenomena. In this case, by reducing the role of the uniform scale factor as a proxy between monthly updates of univariate models for risk factors and by allowing certain risk factors to bypass the monthly update process, as described below, OCC believes that this proposed change would reduce model risk.

a floor would mitigate pro-cyclicality in the relevant return scenarios because it would result in a higher estimate of volatility during periods of relatively lower market volatility if only the GARCH variance was used.

New Scale Factors for Equity-Based Products

To more accurately measure the relationship between current and long-run market volatility with proxies that correlate more closely to certain products carried within the equity asset class, OCC proposes to expand the number of scale factors to include (1) Russell 2000® Index (12/29/1978); (2) Dow Jones Industrial Average Index (9/23/1997); (3) NASDAQ-100 Index (2/4/1985) and (4) S&P 100 Index (1/2/1976). While the SPX scale factor will continue to serve as the default scale factor for most equity products, the index options, futures and ETFs which map to these indexes will be assigned to these scale factors and whose current volatility estimates will be adjusted based on the aforementioned methodology.

Periodically, OCC will evaluate the performance and use of these scale factors and determine if changes to the mapping of products to scale factors or the addition of new scale factors are warranted. Prior to any changes being implemented OCC would present its findings to the Enterprise Risk Management Committee and obtain approval to make the recommended enhancements.

New Scale Factors for Non-Equity-Based Products

In addition to equity products, OCC has observed a growth in the open interest in other asset classes, most notably the volatility asset class and Treasury securities, which an equity-based scale factor would not be applicable based on negligible correlations observed. To be able to monitor and respond to material changes in the volatility of these asset classes while also

mitigating pro-cyclicality, OCC proposes to introduce two additional scale factors in STANS: one related to Treasury securities and one related to volatility contracts.

For these asset classes, different from equities, volatility characteristics are differentiated based on the term of an instrument. As a result, the implementation of the scale factors will be different than the implementation for the equity asset class. Individual products will be linked within STANS to a particular scale factor not only in accordance with price correlations, but will also consider term structure (i.e., non-equity futures contracts and Treasury securities of different maturities).

The scale factor(s) applicable to Treasury securities will utilize a yield curve model that is used to project U.S. Treasury security returns. This would serve to provide the underlying data set, and the time series would run from February 4, 2008. The scale factor(s) applicable to implied volatility indexes, the data set would consist of index closing prices for VIX with a time series would beginning in October 1, 2004. Applying scale factors to hypothetical returns in these asset classes, as is done today for equity-based products, will help ensure that OCC's margin requirements capture shifts in market volatility in these non-equity asset classes, and OCC believes these enhancements would generally promote a more accurate approach to margining within STANS,⁶ particularly when markets are volatile.

Impact Analysis

Based on simulation testing for the period from January 14, 2015, to March 6, 2015, risk margins (i.e., expected shortfall plus the concentration/dependence add-on) would have been 5.2% higher in aggregate as a consequence of these changes. This is mostly due to higher

⁶ See FN. 2 *supra*.

coverage for the Russell 2000 Index and index ETF products under the new methodology. The absolute variation in risk margins relative to production was greater than 5% of Clearing Member capital for about 11% of clearing member-days over the simulation period.

In order to inform Clearing Members of the proposed change, OCC provided a general update at a recent OCC Roundtable⁷ meeting and would continue to provide updates at Roundtable meetings on a quarterly basis going forward. In addition, OCC would publish an Information memorandum to all Clearing Members describing the proposed change and will provide additional periodic Information memoranda updates prior to the implementation date. OCC would also provide at least thirty days prior notice to Clearing Members before implementing the change. Additionally, OCC would perform targeted and direct outreach with Clearing Members that would be most impacted by the proposed change and OCC would work closely with such Clearing Members to coordinate the implementation and associated funding for such Clearing Members resulting from the proposed change.⁸ Finally, OCC would discuss the proposed change with its cross-margin clearing house partners to ensure they are aware of the proposed change.⁹

2. Statutory Basis

⁷ The OCC Roundtable was established to bring Clearing Members, exchanges and OCC together to discuss industry and operational issues. It is comprised of representatives of the senior OCC staff, participant exchanges and Clearing Members, representing the diversity of OCC's membership in industry segments, OCC-cleared volume, business type, operational structure and geography.

⁸ Specifically, OCC will discuss with those Clearing Members how they plan to satisfy any increase in their margin requirements associated with the proposed change.

⁹ Cross-margin accounts are not uniquely affected by the proposed change and would be affected by the proposed change in the same manner as any other type of OCC account.

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”),¹⁰ because it would assure the safeguarding of securities and funds in the custody and control of OCC by enhancing the current approach for monitoring market conditions and performing adjustments to OCC’s margin coverage when current volatility increase beyond historically observed levels. The proposed rule change would therefore reduce the risk that Clearing Member margin assets would be insufficient should OCC need to use such assets to close-out the positions of a defaulted Clearing Member. Further, the proposed rule change would make it less likely that the default of a Clearing Member would stress the financial resources available to OCC, which include mutualized resource funds deposited by non-defaulting Clearing Members as Clearing Fund. OCC believes that the proposed rule change is also consistent with Rule 17Ad-22(b)(2)¹¹ because, for the same reason, it would limit OCC’s credit exposures to its participants under normal market conditions and use risk-based models and parameters to set OCC’s margin requirements. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

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

OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”),¹² because it would assure the safeguarding of securities and funds in the custody and control of OCC by enhancing the current approach for monitoring market conditions and performing adjustments to

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 240.17Ad-22(b)(2).

¹² 15 U.S.C. 78q-1(b)(3)(F).

OCC's margin coverage when current volatility increase beyond historically observed levels. The proposed rule change would therefore reduce the risk that Clearing Member margin assets would be insufficient should OCC need to use such assets to close-out the positions of a defaulted Clearing Member. Further, the proposed rule change would make it less likely that the default of a Clearing Member would stress the financial resources available to OCC, which include mutualized resource funds deposited by non-defaulting Clearing Members as Clearing Fund. OCC believes that the proposed rule change is also consistent with Rule 17Ad-22(b)(2)¹³ because, for the same reason, it would limit OCC's credit exposures to its participants under normal market conditions and use risk-based models and parameters to set OCC's margin requirements. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change

¹³ 17 CFR 240.17Ad-22(b)(2).

should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commissions Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2015-017 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2015-017. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m.

Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at

http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_15_017.pdf

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2015-017 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated Authority.¹⁴

Kevin M. O'Neill
Deputy Secretary

Action as set forth recommended herein
APPROVED pursuant to authority delegated by
the Commission under Public Law 87-592.
For: Division of Trading and Markets

By: _____

Print Name: _____

Date: _____

¹⁴ 17 CFR 200.30-3(a)(12).