



December 1, 2014

VIA ELECTRONIC MAIL

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

Re: Rule Filing SR-OCC-2014-22 Rule Certification

Dear Secretary Jurgens:

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

The proposed rule change is intended to describe the situations in which OCC would exercise authority under its Rules to ensure that it maintains adequate Financial Resources¹ in the event that stress tests reveal a default of the Clearing Member or Clearing Member Group² presenting the largest exposure would threaten the then-current Financial Resources. This proposed rule change would establish procedures governing: (i) OCC’s resizing of the Clearing Fund on a monthly basis pursuant to Rule 1001(a) (the “Monthly Clearing Fund Sizing Procedure”); and (ii) the addition of Financial Resources through an intra-day margin call on one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the

¹ “Financial Resources” means, with respect to a projected loss attributable to a particular Clearing Member, the sum of the margin deposits and deposits in lieu of margin in respect of such Clearing Member’s accounts, and the value of OCC’s Clearing Fund, including both the Base Amount, as defined below, and the prudential margin of safety, as discussed below.

² “Clearing Member Group” means a Clearing Member and any affiliated entities that control, are controlled by or are under common control with such Clearing Member. See OCC By-Laws, Article I, Sections 1.C.(15) and 1.M(11).

Clearing Fund pursuant to Rule 1001(a) (the “Financial Resource Monitoring and Call Procedure”).³ The Monthly Clearing Fund Sizing Procedure would permit OCC to determine the size of the Clearing Fund by relying on a broader range of sound risk management practices than those historically used under Rule 1001(a).⁴ The Financial Resource Monitoring and Call Procedure would require OCC to collect additional Financial Resources in certain circumstances, establish how OCC calculates and collects such resources and provide the timing by which such resources would be required to be deposited by Clearing Members.

Background

OCC monitors the sufficiency of the Clearing Fund on a daily basis but, prior to emergency action taken on October 15, 2014,⁵ OCC had no express authority to increase the size of the Clearing Fund on an intra-month basis.⁶ During ordinary course daily monitoring on October 15, 2014, and as a result of increased volatility in the financial markets in October 2014, OCC determined that the Financial Resources needed to cover the potential loss associated with a default of the Clearing Member or Clearing Member Group presenting the largest exposure could have exceeded the Financial Resources then available to apply to such a default.

To permit OCC to increase the size of its Clearing Fund prior to the next monthly resizing that was scheduled to take place on the first business day of November 2014, OCC’s Executive Chairman, on October 15, 2014, exercised certain emergency powers as set forth in Article IX, Section 14 of OCC’s By-Laws⁷ to waive the effectiveness of the second sentence of Rule 1001(a), which states that OCC will adjust the size of the Clearing Fund monthly and that any resizing will be based on data from the preceding month. OCC then filed an emergency notice with the SEC pursuant to Section 806(e)(2) of the Payment, Clearing and Settlement

³ This proposed rule filing has also been filed as an advance notice filing (SR-OCC-2014-811).

⁴ The procedures described herein would be in effect until the development of a new standard Clearing Fund sizing methodology. Following such development, which will include a quantitative approach to calculating the “prudential margin of safety,” as discussed below, OCC will file a separate rule change and advance notice with the Commission that will include a description of the new methodology as well as a revised Monthly Clearing Fund Sizing Procedure.

⁵ On October 15, 2014, OCC filed an emergency notice with the SEC to suspend the effectiveness of the second sentence of Rule 1001(a). *See* Securities Exchange Act Release No. 73579 (November 12, 2014), 79 FR 68747 (November 18, 2014) (SR-OCC-2014-807). On November 13, 2014, OCC filed SR-OCC-2014-21 with the SEC and the Commission to delete the second sentence of Rule 1001(a), preserving the suspended effectiveness of that sentence until such time as the SEC approves or disapproves SR-OCC-2014-21. *See* Securities Exchange Act Release No. 73685 (November 25, 2014) (SR-OCC-2014- 21). At the time of this filing, the referenced Securities Exchange Act Release had not yet been published in the Federal Register.

⁶ *See* OCC Rule 1001(a).

⁷ OCC also has submitted an advance notice that would provide greater detail concerning conditions under which OCC would increase the size of the Clearing Fund intra-month. The change would permit an intra-month increase in the event that the five-day rolling average of projected draws are 150% or more of the Clearing Fund’s then current size. *See* Securities Exchange Act Release No. 72804 (August 11, 2014), 79 FR 48276 (August 15, 2014) (SR-OCC-2014-804).

Supervision Act of 2010⁸ and increased the Clearing Fund size for the remainder of October 2014 as otherwise provided for in the first sentence of Rule 1001(a).⁹

Clearing Members were informed of the action taken by the Executive Chairman¹⁰ and the amount of their additional Clearing Fund requirements, which were met without incident. As a result of these actions, OCC's Clearing Fund for October 2014 was increased by \$1.8 billion. In continued reliance on the emergency rule waiver and in accordance with the first sentence of Rule 1001(a), OCC set the November 2014 Clearing Fund size at \$7.8 billion, which included an amount determined by OCC to be sufficient to protect OCC against loss under simulated default scenarios (*i.e.*, \$6 billion), plus a prudential margin of safety (the additional \$1.8 billion collected in October).¹¹ All required contributions to the November 2014 Clearing Fund were met by affected Clearing Members.

Under Article IX, Section 14(c), absent the submission of a proposed rule change to the Commission seeking approval of OCC's waiver of the provisions of the second sentence of Rule 1001(a), such waiver would not be permitted to continue for more than thirty calendar days from the date thereof.¹² Accordingly, on November 13, 2014, OCC submitted SR-OCC-2014-21 to delete the second sentence of Rule 1001(a) and, by the terms of Article IX, Section 14(c), preserve the suspended effectiveness of the second sentence of Rule 1001(a) beyond thirty calendar days.¹³

SR-OCC-2014-21 was submitted in part to permit OCC to determine the size of its Clearing Fund by relying on a broader range of sound risk management practices than considered in basing such size on the average daily calculations under Rule 1001(a) that are performed during the preceding calendar month. The Monthly Clearing Fund Sizing Procedure, as described below, is based on such broader risk management practices and establishes the procedures OCC would use to determine the size of the Clearing Fund on a monthly basis. Similarly, SR-OCC-2014-21 was submitted in part to permit OCC to resize the Clearing Fund more frequently than monthly when the circumstances warrant an increase of the Clearing Fund. The Financial Resource Monitoring and Call Procedure, as described below, establishes the procedures that OCC would use to add Financial Resources through an intra-day margin call on one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the Clearing Fund pursuant to Rule 1001(a).¹⁴

⁸ 12 U.S.C. 5465(e)(2).

⁹ See *supra*, note 5.

¹⁰ See Information Memorandum #35397, dated October 16, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>. Clearing members also were informed that a prudential margin of safety of \$1.8 billion would be retained until a new Clearing Fund sizing formula has been approved and implemented.

¹¹ See Information Memorandum # 35507, dated October 31, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>.

¹² See OCC By-Laws, Article IX, Section 14(c).

¹³ See *supra*, note 5. OCC also submitted this proposed rule change to the Commission.

¹⁴ As noted in SR-OCC-2014-21, OCC would use its intra-month resizing authority only to increase the size of the Clearing Fund where appropriate, not to decrease the size of the Clearing Fund.

Monthly Clearing Fund Sizing Procedure

Under the Monthly Clearing Fund Sizing Procedure, OCC would continue to calculate the size of the Clearing Fund based on its daily stress test exposures under simulated default scenarios as described in the first sentence of Rule 1001(a) and resize the Clearing Fund on the first business day of each month. However, instead of resizing the Clearing Fund based on the average of the daily calculations during the preceding calendar month, as stated in the suspended second sentence of Rule 1001, OCC would resize the Clearing Fund so that it is the sum of: (i) an amount equal to the peak five-day rolling average of Clearing Fund draws observed over the preceding three calendar months of daily idiosyncratic default and minor systemic default scenario calculations based on OCC's daily Monte Carlo simulations ("Base Amount") and (ii) a prudential margin of safety determined by OCC and currently set at \$1.8 billion.¹⁵

OCC believes that the proposed Monthly Clearing Fund Sizing Procedure provides a sound and prudent approach to ensure that the Financial Resources are adequate to protect against the largest risk of loss presented by the default of a Clearing Member or Clearing Member Group. By virtue of using only the peak five-day rolling average and by extending the look-back period, the proposed Monthly Clearing Fund Sizing Procedure is both more responsive to sudden increases in exposure and less susceptible to recently observed decreases in exposure that would reduce the overall sizing of the Clearing Fund, thus mitigating procyclicality.¹⁶ Furthermore, the prudential margin of safety provides an additional buffer to absorb potential future exposures not previously observed during the look-back period. The proposed Monthly Clearing Fund Sizing Procedure would be supplemented by the Financial Resource Monitoring and Call Procedure, described below, to provide further assurance that the Financial Resources are adequate to protect against such risk of loss.

Financial Resource Monitoring and Call Procedure

Under the Financial Resource Monitoring and Call Procedure, OCC would use the same daily idiosyncratic default calculation as under the Monthly Clearing Fund Sizing Procedure to monitor daily the adequacy of the Financial Resources to withstand a default by the Clearing Member or Clearing Member Group presenting the largest exposure under extreme but plausible market conditions.¹⁷ If such a daily idiosyncratic default calculation projected a draw on the

¹⁵ On a daily basis, OCC computes its exposure under the idiosyncratic and minor systemic events. The greater of these two exposures is that day's "peak exposure." To calculate the "rolling five day average" OCC computes the average of the peak exposure for each consecutive five-day period observed over the prior three-month period. To determine the Base Amount, OCC would use the largest five-day rolling average observed over the past three-months. This methodology was used to determine the Base Amount of the Clearing Fund for November 2014 and December 2014.

¹⁶ Considering only the peak exposures is a more conservative methodology that gives greater weighting to sudden increases in exposure experienced by Clearing Members, thus enhancing the responsiveness of the procedure to such sudden increases. By using a longer look-back period, the methodology would respond more slowly to recently observed decreases in peak exposures.

¹⁷ Since the minor systemic default scenario contemplates two Clearing Members' simultaneously defaulting and OCC maintains Financial Resources sufficient to cover a default by a Clearing Member or Clearing

Clearing Fund (a “Projected Draw”) that is at least 75% of the Clearing Fund maintained by OCC, OCC would be required to issue an intra-day margin call pursuant to Rule 609 against the Clearing Member or Clearing Member Group that caused such a draw (“Margin Call Event”).¹⁸ Subject to a limitation described below, the amount of the margin call would be the difference between the Projected Draw and the Base Clearing Fund (“Exceedance Above Base Amount”). In the case of a Clearing Member Group that causes the Exceedance Above Base Amount, the Exceedance Above Base Amount would be pro-rated among the individual Clearing Members that compose the Clearing Member Group based on each individual Clearing Member’s proportionate share of the “total risk” for such Clearing Member Group as defined in Rule 1001(b), i.e., the margin requirement with respect to all accounts of the Clearing Member Group exclusive of the net asset value of the positions in such accounts aggregated across all such accounts. However, in the case of an individual Clearing Member or a Clearing Member Group, the margin call would be subject to a limitation under which it could not exceed the lower¹⁹ of: (a) \$500 million, or (b) 100% of a Clearing Member’s net capital, measured cumulatively with any other funds deposited with OCC by the same Clearing Member pursuant to a Margin Call Event within the same month (the “500/100 Limitation”).²⁰

Upon satisfaction of the margin call, OCC would use its authority under Rule 608 to preclude the withdrawal of such additional margin amount until the next monthly resizing of the Clearing Fund. Based on three years of back testing data, OCC determined that it would have had Margin Call Events in 10 of the months during this time period. For each of these months, the maximum call amount would have been equal to \$500 million, with one exception in which the maximum call amount for the month was \$7.7 million.²¹ After giving effect to the intra-day margin calls, i.e., by increasing the Financial Resources by \$500 million, there was only one Margin Call Event where there was an observed stress test exceedance of the Financial Resources.

Member Group representing the greatest exposure to OCC, OCC does not use the minor systemic default scenario to determine the adequacy of the Financial Resources under the Financial Resource Monitoring and Call Procedure.

¹⁸ Rule 609 authorizes OCC to require the deposit of additional margin in any account at any time during any business day by any Clearing Member for, *inter alia*, the protection of OCC, other Clearing Members or the general public. Clearing Members must meet a required deposit of intra-day margin in immediately available funds at a time prescribed by OCC or within one hour of OCC’s issuance of debit settlement instructions against the bank account(s) of the applicable Clearing Member(s), thereby ensuring the prompt deposit of additional Financial Resources.

¹⁹ “Capping” the intra-day margin call avoids placing a “liquidity squeeze” on the subject Clearing Member(s) based on exposures presented by a hypothetical stress test, which would have the potential for causing a default on the intra-day margin call. Back testing results determined that such calls would have been made against Clearing Members that are large, well-capitalized firms, with more than sufficient resources to satisfy the call for additional margin with the proposed limitations.

²⁰ The Risk Committee would be notified, and could take action to address potential Financial Resource deficiencies, in the event that a Projected Draw resulted in a Margin Call Event and as a result of the 500/100 Limitation the margin call was less than the Exceedance Above Base Amount, but the Projected Draw was not so large as to result in an increase in the Clearing Fund as discussed below.

²¹ The back testing analysis performed assumed a single Clearing Member caused the exceedance.

To address this one observed instance, the Financial Resource Monitoring and Call Procedure also would require OCC to increase the size of the Clearing Fund (“Clearing Fund Intra-month Increase Event”) if a Projected Draw exceeds 90% of the Clearing Fund, after applying any funds then on deposit with OCC from the applicable Clearing Member or Clearing Member Group pursuant to a Margin Call Event. The amount of such increase (“Clearing Fund Increase”) would be the greater of: (a) \$1 billion; or (b) 125% of the difference between (i) the Projected Draw, as reduced by the deposits resulting from the Margin Call Event and (ii) the Clearing Fund. Each Clearing Member’s proportionate share of the Clearing Fund Increase would equal its proportionate share of the variable portion of the Clearing Fund for the month in question as calculated pursuant to Rule 1001(b). OCC would notify the Risk Committee of the Board of Directors (the “Risk Committee”), Clearing Members and appropriate regulatory authorities of the Clearing Fund Increase on the business day on which the Clearing Fund Intra-month Increase Event occurred. This ensures that OCC management maintains authority to address any potential Financial Resource deficiencies when compared to its Projected Draw estimates. The Risk Committee would then determine whether the Clearing Fund Increase was sufficient, and would retain authority to increase the Clearing Fund Increase or the margin call made pursuant to a Margin Call Event in its discretion. Clearing Members would be required to meet the call for additional Clearing Fund assets by 9:00 AM CT on the second business day following the Clearing Fund Intra-month Increase Event. OCC believes that this collection process ensures additional Clearing Fund assets are promptly deposited by Clearing Members following notice of a Clearing Fund Increase, while also providing Clearing Members with a reasonable period of time to source such assets. Based on OCC’s back testing results, after giving effect to the intra-day margin call in response to a Margin Call Event plus the prudential margin of safety, the Financial Resources would have been sufficient upon implementing the one instance of a Clearing Fund Intra-month Increase Event.

OCC believes the Financial Resource Monitoring and Call Procedure strikes a prudent balance between mutualizing the burden of requiring additional Financial Resources and requiring the Clearing Member or Clearing Member Group causing the increased exposure to bear such burden. As noted above, in the event of a Margin Call Event, OCC limits the margin call to a monthly aggregate of \$500 million, or 100% of a Clearing Member’s net capital in order to avoid putting an undue liquidity strain on any one Clearing Member. However, where a Projected Draw exceeds 90% of OCC’s Clearing Fund, OCC must act to ensure that it has sufficient Financial Resources, and determined that it should mutualize the burden of the additional Financial Resources at this threshold through a Clearing Fund Increase. OCC believes that this balance would provide OCC with sufficient Financial Resources without increasing the likelihood that its procedures would, based solely on stress testing results, cause a liquidity strain on any on Clearing Member that could result in such member’s default.

The following examples illustrate the manner in which the Financial Resource Monitoring and Call Procedure would be applied. All assume that the Clearing Fund size is \$7.8 billion, \$6 billion of which is the Base Amount and \$1.8 billion of which is the prudential margin of safety. The 75% threshold in these examples is \$5.85 billion.

Example 1: Single CM

Under OCC's stress testing the Projected Draw attributable to Clearing Member ABC, a Clearing Member with no affiliated Clearing Members and net capital of \$500 million, is \$6.4 billion, or 82% of the Clearing Fund. OCC would make a margin call for \$400 million, which represents the Exceedance Above Base Amount. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of the Clearing Member's net capital. The Clearing Member would be required to meet the \$400 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$400 million until the next monthly Clearing Fund sizing calculation.

If, on a different day within the same month, CM ABC's Projected Draw minus the \$400 million already deposited with OCC results in an Exceedance Above Base Amount, another Margin Call Event would be triggered, with the amount currently deposited with OCC applying toward the 500/100 Limitation.

Example 2: Clearing Member Group

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group DEF, comprised of two Clearing Members each with net capital of \$800 million, is \$6.2 billion, or 79% of OCC's Clearing Fund. OCC would initiate a margin call on Clearing Member Group DEF for \$200 million. The call would be allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of net capital. The margin call would be required to be met within one hour of the call unless OCC prescribed a different time. For example, in the case where one Clearing Member accounts for 75% of the risk margin for the Clearing Member Group, that Clearing Member would be allocated \$150 million of the call and the other Clearing Member, accounting for 25% of the risk margin for the Clearing Member Group, would be allocated \$50 million of the call. The funds would remain deposited with OCC until the next monthly Clearing Fund sizing calculation.

Example 3: Clearing Member Group with \$500 million cap

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group GHI, comprised of two Clearing Members each with net capital of \$800 million, is \$6.8 billion, or 87% of the Clearing Fund. The Exceedance Above Base Amount would be \$800 million, allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. Using the 75/25 risk margin allocation from Example 2, one Clearing Member would be allocated \$600 million and the other Clearing Member would be allocated \$200 million. The first Clearing Member would be required to deposit \$500 million with OCC, which is the lowest of \$500 million, that member's net capital, or that member's share of the Exceedance Above Base Amount, and the other Clearing Member would be required to deposit \$200 million with OCC. After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of

\$6.1 billion, which is the original Projected Draw of \$6.8 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 78% would be below the 90% threshold, and accordingly there would not be a Clearing Fund Intra-month Increase Event.

Example 4: Margin Call and Increase in Size of Clearing Fund

Under OCC's stress testing the Projected Draw attributable to Clearing Member JKL, a Clearing Member with no affiliated Clearing Members and net capital of \$600 million, is \$10.0 billion, or 128% of the Clearing Fund. OCC would make a margin call for \$500 million, which represents the lowest of the Exceedance Above Base Amount, \$500 million and 100% of net capital. The Clearing Member would be required to meet the \$500 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$500 million until the next monthly Clearing Fund sizing calculation.

After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of \$9.5 billion, which is the original Projected Draw of \$10 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 122%, while lower, would still exceed the 90% threshold, and accordingly OCC would declare a Clearing Fund Intra-month Increase Event. To calculate the Clearing Fund Increase, OCC would first determine the difference between the modified Projected Draw (\$9.5 billion) and the Clearing Fund (\$7.8 billion), which in this case would be \$1.7 billion, OCC would then multiply this by 1.25, resulting in \$2.125 billion. Because this amount is greater than \$1 billion, the Clearing Fund Increase would be \$2.125 billion and a modified Clearing Fund of OCC totaling \$9.925 billion (\$425 million in excess of the modified Projected Draw of \$9.5 billion).

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 believes that by implementing the proposed rule change it will be better able to manage the risks associated with discharging its responsibilities as a DCO as set forth in the DCO Core Principles because it will, through its ability to adjust the size of its Clearing Fund intra-month as well as require Clearing Members and Clearing Member Groups to contribute additional financial resources to OCC, limit OCC's exposure to potential losses from the default of a Clearing Member or Clearing Member Group because it will be less likely that OCC's Clearing Fund would be insufficient should OCC need to use its Clearing Fund to manage the default. In addition, the proposed rule change will make it less likely that the size of OCC's Clearing Fund would not consider incremental risk(s) that may be presented to OCC intra-month thereby better ensuring that non-defaulting Clearing Members and Clearing Member Groups would not be exposed to losses from a defaulting Clearing Member and Clearing Member Group.

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. Szarmack
Vice President and Associate General Counsel

Enclosure



[LOG OFF](#)



Form Submitted Successfully

The Form 19b-4 you just submitted has been validated and is being processed. You may check its status using the Outbox listed in the menu options to the left. If, for any reason, the form does not process correctly, you will see a status there indicating this.

Outbox
Outbox
Notification Outbox
Form 19b-4
General 19b-4 Instructions
Specific 19b-4 Instructions
Create New Prefiling
New 19b-4 Form
Associate 19b-4 Form
Open Saved 19b-4 Form
Submit 19b-4 Form
Form 19b-7
General 19b-7 Instructions
Specific 19b-7 Instructions
New 19b-7 Form
Open Saved 19b-7 Form
Submit 19b-7 Form
Utilities
2012 SRO Outreach Conference Materials

Required fields are shown with yellow backgrounds and asterisks.

Filing by Options Clearing Corporation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * Amendment * Withdrawal Section 19(b)(2) * Section 19(b)(3)(A) * Section 19(b)(3)(B) *

Pilot Extension of Time Period for Commission Action * Date Expires *

File
 19b-4(f)(1) 19b-4(f)(4)
 19b-4(f)(2) 19b-4(f)(5)
 19b-4(f)(3) 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010
 Section 806(e)(1) * Section 806(e)(2) *
 Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
 Section 3C(b)(2) *

Exhibit 2 Sent As Paper Document Exhibit 3 Sent As Paper Document

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

This proposed rule change concerns monthly resizing of the clearing fund and the addition of financial resources.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Stephen Last Name * Szarmack
 Title * Vice President and Associate General Counsel
 E-mail * sszarmack@theocc.com
 Telephone * (312) 322-4802 Fax (312) 322-6280

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 12/01/2014 Assistant Secretary
 By Scott Kalish (Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Persona Not Validated - 1393861263956,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFS website.

Form 19b-4 Information *

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

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

The Options Clearing Corporation (“OCC”) proposes to establish procedures regarding the monthly resizing of its Clearing Fund and the addition of financial resources through intra-day margin calls and/or an intra-month increase of the Clearing Fund to ensure that it maintains adequate financial resources in the event of a default of a Clearing Member or group of affiliated Clearing Members presenting the largest exposure to OCC. As discussed below, these procedures are being adopted pursuant to Rule 1001(a) and Rule 609, but do not require any changes to 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 of Directors of OCC at a meeting held on November 7, 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

The proposed rule change is intended to describe the situations in which OCC would exercise authority under its Rules to ensure that it maintains adequate Financial Resources¹ in the event that stress tests reveal a default of the Clearing Member or Clearing

¹ “Financial Resources” means, with respect to a projected loss attributable to a particular Clearing Member, the sum of the margin deposits and deposits in lieu of margin in respect of such Clearing Member’ accounts, and the value of OCC’s Clearing Fund,

Member Group² presenting the largest exposure would threaten the then-current Financial Resources. This proposed rule change would establish procedures governing: (i) OCC's resizing of the Clearing Fund on a monthly basis pursuant to Rule 1001(a) (the "Monthly Clearing Fund Sizing Procedure"); and (ii) the addition of Financial Resources through an intra-day margin call on one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the Clearing Fund pursuant to Rule 1001(a) (the "Financial Resource Monitoring and Call Procedure").³ The Monthly Clearing Fund Sizing Procedure would permit OCC to determine the size of the Clearing Fund by relying on a broader range of sound risk management practices than those historically used under Rule 1001(a).⁴ The Financial Resource Monitoring and Call Procedure would require OCC to collect additional Financial Resources in certain circumstances, establish how OCC calculates and collects such resources and provide the timing by which such resources would be required to be deposited by Clearing Members.

including both the Base Amount, as defined below, and the prudential margin of safety, as discussed below.

² "Clearing Member Group" means a Clearing Member and any affiliated entities that control, are controlled by or are under common control with such Clearing Member. *See* OCC By-Laws, Article I, Sections 1.C.(15) and 1.M(11).

³ This proposed rule filing has also been filed as an advance notice filing (SR-OCC-2014-811).

⁴ The procedures described herein would be in effect until the development of a new standard Clearing Fund sizing methodology. Following such development, which will include a quantitative approach to calculating the "prudential margin of safety," as discussed below, OCC will file a separate rule change and advance notice with the Commission that will include a description of the new methodology as well as a revised Monthly Clearing Fund Sizing Procedure.

Background

OCC monitors the sufficiency of the Clearing Fund on a daily basis but, prior to emergency action taken on October 15, 2014,⁵ OCC had no express authority to increase the size of the Clearing Fund on an intra-month basis.⁶ During ordinary course daily monitoring on October 15, 2014, and as a result of increased volatility in the financial markets in October 2014, OCC determined that the Financial Resources needed to cover the potential loss associated with a default of the Clearing Member or Clearing Member Group presenting the largest exposure could have exceeded the Financial Resources then available to apply to such a default.

To permit OCC to increase the size of its Clearing Fund prior to the next monthly resizing that was scheduled to take place on the first business day of November 2014, OCC's Executive Chairman, on October 15, 2014, exercised certain emergency powers as set forth in Article IX, Section 14 of OCC's By-Laws⁷ to waive the effectiveness of the second sentence of

⁵ On October 15, 2014, OCC filed an emergency notice with the Commission to suspend the effectiveness of the second sentence of Rule 1001(a). *See* Securities Exchange Act Release No. 73579 (November 12, 2014), 79 FR 68747 (November 18, 2014) (SR-OCC-2014-807). On November 13, 2014, OCC filed SR-OCC-2014-21 with the Commission to delete the second sentence of Rule 1001(a), preserving the suspended effectiveness of that sentence until such time as the Commission approves or disapproves SR-OCC-2014-21. *See* Securities Exchange Act Release No. 73685 (November 25, 2014) (SR-OCC-2014-21). At the time of this filing, the referenced Securities Exchange Act Release had not yet been published in the Federal Register.

⁶ *See* OCC Rule 1001(a).

⁷ OCC also has submitted an advance notice that would provide greater detail concerning conditions under which OCC would increase the size of the Clearing Fund intra-month. The change would permit an intra-month increase in the event that the five-day rolling average of projected draws are 150% or more of the Clearing Fund's then current size.

Rule 1001(a), which states that OCC will adjust the size of the Clearing Fund monthly and that any resizing will be based on data from the preceding month. OCC then filed an emergency notice with the Commission pursuant to Section 806(e)(2) of the Payment, Clearing and Settlement Supervision Act of 2010⁸ and increased the Clearing Fund size for the remainder of October 2014 as otherwise provided for in the first sentence of Rule 1001(a).⁹

Clearing Members were informed of the action taken by the Executive Chairman¹⁰ and the amount of their additional Clearing Fund requirements, which were met without incident. As a result of these actions, OCC's Clearing Fund for October 2014 was increased by \$1.8 billion. In continued reliance on the emergency rule waiver and in accordance with the first sentence of Rule 1001(a), OCC set the November 2014 Clearing Fund size at \$7.8 billion, which included an amount determined by OCC to be sufficient to protect OCC against loss under simulated default scenarios (*i.e.*, \$6 billion), plus a prudential margin of safety (the additional \$1.8 billion collected in October).¹¹ All required contributions to the November 2014

See Securities Exchange Act Release No. 72804 (August 11, 2014), 79 FR 48276 (August 15, 2014) (SR-OCC-2014-804).

⁸ 12 U.S.C. 5465(e)(2).

⁹ *See supra*, note 5.

¹⁰ *See* Information Memorandum #35397, dated October 16, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>. Clearing members also were informed that a prudential margin of safety of \$1.8 billion would be retained until a new Clearing Fund sizing formula has been approved and implemented.

¹¹ *See* Information Memorandum # 35507, dated October 31, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>.

Clearing Fund were met by affected Clearing Members.

Under Article IX, Section 14(c), absent the submission of a proposed rule change to the Commission seeking approval of OCC's waiver of the provisions of the second sentence of Rule 1001(a), such waiver would not be permitted to continue for more than thirty calendar days from the date thereof.¹² Accordingly, on November 13, 2014, OCC submitted SR-OCC-2014-21 to delete the second sentence of Rule 1001(a) and, by the terms of Article IX, Section 14(c), preserve the suspended effectiveness of the second sentence of Rule 1001(a) beyond thirty calendar days.¹³

SR-OCC-2014-21 was submitted in part to permit OCC to determine the size of its Clearing Fund by relying on a broader range of sound risk management practices than considered in basing such size on the average daily calculations under Rule 1001(a) that are performed during the preceding calendar month. The Monthly Clearing Fund Sizing Procedure, as described below, is based on such broader risk management practices and establishes the procedures OCC would use to determine the size of the Clearing Fund on a monthly basis. Similarly, SR-OCC-2014-21 was submitted in part to permit OCC to resize the Clearing Fund more frequently than monthly when the circumstances warrant an increase of the Clearing Fund. The Financial Resource Monitoring and Call Procedure, as described below, establishes the procedures that OCC would use to add Financial Resources through an intra-day margin call on

¹² See OCC By-Laws, Article IX, Section 14(c).

¹³ See *supra*, note 5. OCC also submitted this proposed rule change to the Commodity Futures Trading Commission.

one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the Clearing Fund pursuant to Rule 1001(a).¹⁴

Monthly Clearing Fund Sizing Procedure

Under the Monthly Clearing Fund Sizing Procedure, OCC would continue to calculate the size of the Clearing Fund based on its daily stress test exposures under simulated default scenarios as described in the first sentence of Rule 1001(a) and resize the Clearing Fund on the first business day of each month. However, instead of resizing the Clearing Fund based on the average of the daily calculations during the preceding calendar month, as stated in the suspended second sentence of Rule 1001, OCC would resize the Clearing Fund so that it is the sum of: (i) an amount equal to the peak five-day rolling average of Clearing Fund draws observed over the preceding three calendar months of daily idiosyncratic default and minor systemic default scenario calculations based on OCC's daily Monte Carlo simulations ("Base Amount") and (ii) a prudential margin of safety determined by OCC and currently set at \$1.8 billion.¹⁵

OCC believes that the proposed Monthly Clearing Fund Sizing Procedure

¹⁴ As noted in SR-OCC-2014-21, OCC would use its intra-month resizing authority only to increase the size of the Clearing Fund where appropriate, not to decrease the size of the Clearing Fund.

¹⁵ On a daily basis, OCC computes its exposure under the idiosyncratic and minor systemic events. The greater of these two exposures is that day's "peak exposure." To calculate the "rolling five day average" OCC computes the average of the peak exposure for each consecutive five-day period observed over the prior three-month period. To determine the Base Amount, OCC would use the largest five-day rolling average observed over the past three-months. This methodology was used to determine the Base Amount of the Clearing Fund for November 2014 and December 2014.

provides a sound and prudent approach to ensure that the Financial Resources are adequate to protect against the largest risk of loss presented by the default of a Clearing Member or Clearing Member Group. By virtue of using only the peak five-day rolling average and by extending the look-back period, the proposed Monthly Clearing Fund Sizing Procedure is both more responsive to sudden increases in exposure and less susceptible to recently observed decreases in exposure that would reduce the overall sizing of the Clearing Fund, thus mitigating procyclicality.¹⁶ Furthermore, the prudential margin of safety provides an additional buffer to absorb potential future exposures not previously observed during the look-back period. The proposed Monthly Clearing Fund Sizing Procedure would be supplemented by the Financial Resource Monitoring and Call Procedure, described below, to provide further assurance that the Financial Resources are adequate to protect against such risk of loss.

Financial Resource Monitoring and Call Procedure

Under the Financial Resource Monitoring and Call Procedure, OCC would use the same daily idiosyncratic default calculation as under the Monthly Clearing Fund Sizing Procedure to monitor daily the adequacy of the Financial Resources to withstand a default by the Clearing Member or Clearing Member Group presenting the largest exposure under extreme but

¹⁶ Considering only the peak exposures is a more conservative methodology that gives greater weighting to sudden increases in exposure experienced by Clearing Members, thus enhancing the responsiveness of the procedure to such sudden increases. By using a longer look-back period, the methodology would respond more slowly to recently observed decreases in peak exposures.

plausible market conditions.¹⁷ If such a daily idiosyncratic default calculation projected a draw on the Clearing Fund (a “Projected Draw”) that is at least 75% of the Clearing Fund maintained by OCC, OCC would be required to issue an intra-day margin call pursuant to Rule 609 against the Clearing Member or Clearing Member Group that caused such a draw (“Margin Call Event”).¹⁸ Subject to a limitation described below, the amount of the margin call would be the difference between the Projected Draw and the Base Clearing Fund (“Exceedance Above Base Amount”). In the case of a Clearing Member Group that causes the Exceedance Above Base Amount, the Exceedance Above Base Amount would be pro-rated among the individual Clearing Members that compose the Clearing Member Group based on each individual Clearing Member’s proportionate share of the “total risk” for such Clearing Member Group as defined in Rule 1001(b), i.e., the margin requirement with respect to all accounts of the Clearing Member Group exclusive of the net asset value of the positions in such accounts aggregated across all such accounts. However, in the case of an individual Clearing Member or a Clearing Member

¹⁷ Since the minor systemic default scenario contemplates two Clearing Members’ simultaneously defaulting and OCC maintains Financial Resources sufficient to cover a default by a Clearing Member or Clearing Member Group representing the greatest exposure to OCC, OCC does not use the minor systemic default scenario to determine the adequacy of the Financial Resources under the Financial Resource Monitoring and Call Procedure.

¹⁸ Rule 609 authorizes OCC to require the deposit of additional margin in any account at any time during any business day by any Clearing Member for, *inter alia*, the protection of OCC, other Clearing Members or the general public. Clearing Members must meet a required deposit of intra-day margin in immediately available funds at a time prescribed by OCC or within one hour of OCC’s issuance of debit settlement instructions against the bank account(s) of the applicable Clearing Member(s), thereby ensuring the prompt deposit of additional Financial Resources.

Group, the margin call would be subject to a limitation under which it could not exceed the lower¹⁹ of: (a) \$500 million, or (b) 100% of a Clearing Member's net capital, measured cumulatively with any other funds deposited with OCC by the same Clearing Member pursuant to a Margin Call Event within the same month (the "500/100 Limitation").²⁰

Upon satisfaction of the margin call, OCC would use its authority under Rule 608 to preclude the withdrawal of such additional margin amount until the next monthly resizing of the Clearing Fund. Based on three years of back testing data, OCC determined that it would have had Margin Call Events in 10 of the months during this time period. For each of these months, the maximum call amount would have been equal to \$500 million, with one exception in which the maximum call amount for the month was \$7.7 million.²¹ After giving effect to the intra-day margin calls, *i.e.*, by increasing the Financial Resources by \$500 million, there was only one Margin Call Event where there was an observed stress test exceedance of the Financial Resources.

¹⁹ "Capping" the intra-day margin call avoids placing a "liquidity squeeze" on the subject Clearing Member(s) based on exposures presented by a hypothetical stress test, which would have the potential for causing a default on the intra-day margin call. Back testing results determined that such calls would have been made against Clearing Members that are large, well-capitalized firms, with more than sufficient resources to satisfy the call for additional margin with the proposed limitations.

²⁰ The Risk Committee would be notified, and could take action to address potential Financial Resource deficiencies, in the event that a Projected Draw resulted in a Margin Call Event and as a result of the 500/100 Limitation the margin call was less than the Exceedance Above Base Amount, but the Projected Draw was not so large as to result in an increase in the Clearing Fund as discussed below.

²¹ The back testing analysis performed assumed a single Clearing Member caused the exceedance.

To address this one observed instance, the Financial Resource Monitoring and Call Procedure also would require OCC to increase the size of the Clearing Fund (“Clearing Fund Intra-month Increase Event”) if a Projected Draw exceeds 90% of the Clearing Fund, after applying any funds then on deposit with OCC from the applicable Clearing Member or Clearing Member Group pursuant to a Margin Call Event. The amount of such increase (“Clearing Fund Increase”) would be the greater of: (a) \$1 billion; or (b) 125% of the difference between (i) the Projected Draw, as reduced by the deposits resulting from the Margin Call Event and (ii) the Clearing Fund. Each Clearing Member’s proportionate share of the Clearing Fund Increase would equal its proportionate share of the variable portion of the Clearing Fund for the month in question as calculated pursuant to Rule 1001(b). OCC would notify the Risk Committee of the Board of Directors (the “Risk Committee”), Clearing Members and appropriate regulatory authorities of the Clearing Fund Increase on the business day on which the Clearing Fund Intra-month Increase Event occurred. This ensures that OCC management maintains authority to address any potential Financial Resource deficiencies when compared to its Projected Draw estimates. The Risk Committee would then determine whether the Clearing Fund Increase was sufficient, and would retain authority to increase the Clearing Fund Increase or the margin call made pursuant to a Margin Call Event in its discretion. Clearing Members would be required to meet the call for additional Clearing Fund assets by 9:00 AM CT on the second business day following the Clearing Fund Intra-Month Increase Event. OCC believes that this collection process ensures additional Clearing Fund assets are promptly deposited by Clearing Members following notice of a Clearing Fund Increase, while also providing Clearing Members with a

reasonable period of time to source such assets. Based on OCC's back testing results, after giving effect to the intra-day margin call in response to a Margin Call Event plus the prudential margin of safety, the Financial Resources would have been sufficient upon implementing the one instance of a Clearing Fund Intra-month Increase Event.

OCC believes the Financial Resource Monitoring and Call Procedure strikes a prudent balance between mutualizing the burden of requiring additional Financial Resources and requiring the Clearing Member or Clearing Member Group causing the increased exposure to bear such burden. As noted above, in the event of a Margin Call Event, OCC limits the margin call to a monthly aggregate of \$500 million, or 100% of a Clearing Member's net capital in order to avoid putting an undue liquidity strain on any one Clearing Member. However, where a Projected Draw exceeds 90% of OCC's Clearing Fund, OCC must act to ensure that it has sufficient Financial Resources, and determined that it should mutualize the burden of the additional Financial Resources at this threshold through a Clearing Fund Increase. OCC believes that this balance would provide OCC with sufficient Financial Resources without increasing the likelihood that its procedures would, based solely on stress testing results, cause a liquidity strain on any on Clearing Member that could result in such member's default.

The following examples illustrate the manner in which the Financial Resource Monitoring and Call Procedure would be applied. All assume that the Clearing Fund size is \$7.8 billion, \$6 billion of which is the Base Amount and \$1.8 billion of which is the prudential margin of safety. The 75% threshold in these examples is \$5.85 billion.

Example 1: Single CM

Under OCC's stress testing the Projected Draw attributable to Clearing Member ABC, a Clearing Member with no affiliated Clearing Members and net capital of \$500 million, is \$6.4 billion, or 82% of the Clearing Fund. OCC would make a margin call for \$400 million, which represents the Exceedance Above Base Amount. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of the Clearing Member's net capital. The Clearing Member would be required to meet the \$400 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$400 million until the next monthly Clearing Fund sizing calculation.

If, on a different day within the same month, CM ABC's Projected Draw minus the \$400 million already deposited with OCC results in an Exceedance above Base Amount, another Margin Call Event would be triggered, with the amount currently deposited with OCC applying toward the 500/100 Limitation.

Example 2: Clearing Member Group

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group DEF, comprised of two Clearing Members each with net capital of \$800 million, is \$6.2 billion, or 79% of OCC's Clearing Fund. OCC would initiate a margin call on Clearing Member Group DEF for \$200 million. The call would be allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of net capital. The margin call would be required to

be met within one hour of the call unless OCC prescribed a different time. For example, in the case where one Clearing Member accounts for 75% of the risk margin for the Clearing Member Group, that Clearing Member would be allocated \$150 million of the call and the other Clearing Member, accounting for 25% of the risk margin for the Clearing Member Group, would be allocated \$50 million of the call. The funds would remain deposited with OCC until the next monthly Clearing Fund sizing calculation.

Example 3: Clearing Member Group with \$500 million cap

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group GHI, comprised of two Clearing Members each with net capital of \$800 million, is \$6.8 billion, or 87% of the Clearing Fund. The Exceedance Above Base Amount would be \$800 million, allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. Using the 75/25 risk margin allocation from Example 2, one Clearing Member would be allocated \$600 million and the other Clearing Member would be allocated \$200 million. The first Clearing Member would be required to deposit \$500 million with OCC, which is the lowest of \$500 million, that member's net capital, or that member's share of the Exceedance Above Base Amount, and the other Clearing Member would be required to deposit \$200 million with OCC. After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of \$6.1 billion, which is the original Projected Draw of \$6.8 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 78% would

be below the 90% threshold, and accordingly there would not be a Clearing Fund Intra-month Increase Event.

Example 4: Margin Call and Increase in Size of Clearing Fund

Under OCC's stress testing the Projected Draw attributable to Clearing Member JKL, a Clearing Member with no affiliated Clearing Members and net capital of \$600 million, is \$10.0 billion, or 128% of the Clearing Fund. OCC would make a margin call for \$500 million, which represents the lowest of the Exceedance Above Base Amount, \$500 million and 100% of net capital. The Clearing Member would be required to meet the \$500 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$500 million until the next monthly Clearing Fund sizing calculation.

After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of \$9.5 billion, which is the original Projected Draw of \$10 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 122%, while lower, would still exceed the 90% threshold, and accordingly OCC would declare a Clearing Fund Intra-month Increase Event. To calculate the Clearing Fund Increase, OCC would first determine the difference between the modified Projected Draw (\$9.5 billion) and the Clearing Fund (\$7.8 billion), which in this case would be \$1.7 billion, OCC would then multiply this by 1.25, resulting in \$2.125 billion. Because this amount is greater than \$1 billion, the Clearing Fund Increase would be \$2.125 billion and a modified Clearing Fund of OCC totaling \$9.925 billion (\$425 million in excess of

the modified Projected Draw of \$9.5 billion).

B. Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”),²² and the rules and regulations thereunder. By establishing sound procedures governing the monthly resizing of the Clearing Fund and how OCC would add Financial Resources in response to a Margin Call Event and a Clearing Fund Intra-month Increase Event, the proposed modifications would further ensure that OCC is capable of safeguarding securities and funds which are in the custody or control of OCC or for which it is responsible and protecting investors and the public interest. The development of the Monthly Clearing Fund Sizing Procedure and the Financial Resource Monitoring and Call Procedure also ensures that OCC has procedures designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions, in compliance with Rule 17Ad-22(b)(3).²³

²² 15 U.S.C. 78q-1(b)(3)(F).

²³ 17 CFR 240.17Ad-22(b)(3).

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.²⁴ OCC believes 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 OCC would establish the size of the Clearing Fund in accordance with the Monthly Clearing Fund Sizing Procedure and without regard to any particular user or Clearing Member that makes Clearing Fund contributions. Furthermore, OCC would respond to a Margin Call Event and Clearing Fund Intra-month Increase Event in accordance with the Financial Resource Monitoring and Call Procedure without regard to any particular user or Clearing Member.

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 proposed rule change and none have been received.

Item 6. Extension of Time Period for Commission Action

OCC does not consent to an extension of the time period for Commission action

²⁴ 15 U.S.C. 78-q1(b)(3)(I).

on the proposed rule change.

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 Rules 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.

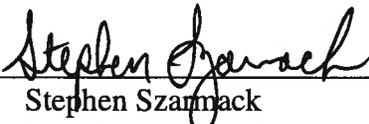
Item 11. Exhibits

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-2014-22)

December 1, 2014

Clearing Agency; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning Monthly Resizing of the Clearing Fund and the Addition of Financial Resources

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 December 1, 2014, 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

OCC proposes to establish procedures regarding the monthly resizing of its Clearing Fund and the addition of financial resources through intra-day margin calls and/or an intra-month increase of the Clearing Fund to ensure that it maintains adequate financial resources in the event of a default of a Clearing Member or group of affiliated Clearing Members presenting the largest exposure to OCC.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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

The proposed rule change is intended to describe the situations in which OCC would exercise authority under its Rules to ensure that it maintains adequate Financial Resources³ in the event that stress tests reveal a default of the Clearing Member or Clearing Member Group⁴ presenting the largest exposure would threaten the then-current Financial Resources. This proposed rule change would establish procedures governing: (i) OCC's resizing of the Clearing Fund on a monthly basis pursuant to Rule 1001(a) (the "Monthly Clearing Fund Sizing Procedure"); and (ii) the addition of Financial Resources through an intra-day margin call on one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the Clearing Fund pursuant to Rule 1001(a) (the "Financial Resource

³ "Financial Resources" means, with respect to a projected loss attributable to a particular Clearing Member, the sum of the margin deposits and deposits in lieu of margin in respect of such Clearing Member's accounts, and the value of OCC's Clearing Fund, including both the Base Amount, as defined below, and the prudential margin of safety, as discussed below.

⁴ "Clearing Member Group" means a Clearing Member and any affiliated entities that control, are controlled by or are under common control with such Clearing Member. *See* OCC By-Laws, Article I, Sections 1.C.(15) and 1.M(11).

Monitoring and Call Procedure”).⁵ The Monthly Clearing Fund Sizing Procedure would permit OCC to determine the size of the Clearing Fund by relying on a broader range of sound risk management practices than those historically used under Rule 1001(a).⁶ The Financial Resource Monitoring and Call Procedure would require OCC to collect additional Financial Resources in certain circumstances, establish how OCC calculates and collects such resources and provide the timing by which such resources would be required to be deposited by Clearing Members.

Background

OCC monitors the sufficiency of the Clearing Fund on a daily basis but, prior to emergency action taken on October 15, 2014,⁷ OCC had no express authority to increase the size of the Clearing Fund on an intra-month basis.⁸ During ordinary course daily monitoring on October 15, 2014, and as a result of increased volatility in the financial markets in October 2014, OCC determined that the Financial Resources needed to cover the potential loss associated with

⁵ This proposed rule filing has also been filed as an advance notice filing (SR-OCC-2014-811).

⁶ The procedures described herein would be in effect until the development of a new standard Clearing Fund sizing methodology. Following such development, which will include a quantitative approach to calculating the “prudential margin of safety,” as discussed below, OCC will file a separate rule change and advance notice with the Commission that will include a description of the new methodology as well as a revised Monthly Clearing Fund Sizing Procedure.

⁷ On October 15, 2014, OCC filed an emergency notice with the Commission to suspend the effectiveness of the second sentence of Rule 1001(a). *See* Securities Exchange Act Release No. 73579 (November 12, 2014), 79 FR 68747 (November 18, 2014) (SR-OCC-2014-807). On November 13, 2014, OCC filed SR-OCC-2014-21 with the Commission to delete the second sentence of Rule 1001(a), preserving the suspended effectiveness of that sentence until such time as the Commission approves or disapproves SR-OCC-2014-21. *See* Securities Exchange Act Release No. 73685 (November 25, 2014) (SR-OCC-2014-21). At the time of this filing, the referenced Securities Exchange Act Release had not yet been published in the Federal Register.

⁸ *See* OCC Rule 1001(a).

a default of the Clearing Member or Clearing Member Group presenting the largest exposure could have exceeded the Financial Resources then available to apply to such a default.

To permit OCC to increase the size of its Clearing Fund prior to the next monthly resizing that was scheduled to take place on the first business day of November 2014, OCC's Executive Chairman, on October 15, 2014, exercised certain emergency powers as set forth in Article IX, Section 14 of OCC's By-Laws⁹ to waive the effectiveness of the second sentence of Rule 1001(a), which states that OCC will adjust the size of the Clearing Fund monthly and that any resizing will be based on data from the preceding month. OCC then filed an emergency notice with the Commission pursuant to Section 806(e)(2) of the Payment, Clearing and Settlement Supervision Act of 2010¹⁰ and increased the Clearing Fund size for the remainder of October 2014 as otherwise provided for in the first sentence of Rule 1001(a).¹¹

Clearing Members were informed of the action taken by the Executive Chairman¹² and the amount of their additional Clearing Fund requirements, which were met without incident. As a result of these actions, OCC's Clearing Fund for October 2014 was increased by \$1.8 billion. In continued reliance on the emergency rule waiver and in accordance

⁹ OCC also has submitted an advance notice that would provide greater detail concerning conditions under which OCC would increase the size of the Clearing Fund intra-month. The change would permit an intra-month increase in the event that the five-day rolling average of projected draws are 150% or more of the Clearing Fund's then current size. *See* Securities Exchange Act Release No. 72804 (August 11, 2014), 79 FR 48276 (August 15, 2014) (SR-OCC-2014-804).

¹⁰ 12 U.S.C. 5465(e)(2).

¹¹ *See supra*, note 5.

¹² *See* Information Memorandum #35397, dated October 16, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>. Clearing members also were informed that a prudential margin of safety of \$1.8 billion would be retained until a new Clearing Fund sizing formula has been approved and implemented.

with the first sentence of Rule 1001(a), OCC set the November 2014 Clearing Fund size at \$7.8 billion, which included an amount determined by OCC to be sufficient to protect OCC against loss under simulated default scenarios (*i.e.*, \$6 billion), plus a prudential margin of safety (the additional \$1.8 billion collected in October).¹³ All required contributions to the November 2014 Clearing Fund were met by affected Clearing Members.

Under Article IX, Section 14(c), absent the submission of a proposed rule change to the Commission seeking approval of OCC's waiver of the provisions of the second sentence of Rule 1001(a), such waiver would not be permitted to continue for more than thirty calendar days from the date thereof.¹⁴ Accordingly, on November 13, 2014, OCC submitted SR-OCC-2014-21 to delete the second sentence of Rule 1001(a) and, by the terms of Article IX, Section 14(c), preserve the suspended effectiveness of the second sentence of Rule 1001(a) beyond thirty calendar days.¹⁵

SR-OCC-2014-21 was submitted in part to permit OCC to determine the size of its Clearing Fund by relying on a broader range of sound risk management practices than considered in basing such size on the average daily calculations under Rule 1001(a) that are performed during the preceding calendar month. The Monthly Clearing Fund Sizing Procedure, as described below, is based on such broader risk management practices and establishes the procedures OCC would use to determine the size of the Clearing Fund on a monthly basis. Similarly, SR-OCC-2014-21 was submitted in part to permit OCC to resize the Clearing Fund

¹³ See Information Memorandum # 35507, dated October 31, 2014, available on OCC's website, <http://www.theocc.com/clearing/clearing-infomemos/infomemos1.jsp>.

¹⁴ See OCC By-Laws, Article IX, Section 14(c).

¹⁵ See *supra*, note 5. OCC also submitted this proposed rule change to the Commodity Futures Trading Commission.

more frequently than monthly when the circumstances warrant an increase of the Clearing Fund. The Financial Resource Monitoring and Call Procedure, as described below, establishes the procedures that OCC would use to add Financial Resources through an intra-day margin call on one or more Clearing Members under Rule 609 and, if necessary, an intra-month increase of the Clearing Fund pursuant to Rule 1001(a).¹⁶

Monthly Clearing Fund Sizing Procedure

Under the Monthly Clearing Fund Sizing Procedure, OCC would continue to calculate the size of the Clearing Fund based on its daily stress test exposures under simulated default scenarios as described in the first sentence of Rule 1001(a) and resize the Clearing Fund on the first business day of each month. However, instead of resizing the Clearing Fund based on the average of the daily calculations during the preceding calendar month, as stated in the suspended second sentence of Rule 1001, OCC would resize the Clearing Fund so that it is the sum of: (i) an amount equal to the peak five-day rolling average of Clearing Fund draws observed over the preceding three calendar months of daily idiosyncratic default and minor systemic default scenario calculations based on OCC's daily Monte Carlo simulations ("Base Amount") and (ii) a prudential margin of safety determined by OCC and currently set at \$1.8 billion.¹⁷

¹⁶ As noted in SR-OCC-2014-21, OCC would use its intra-month resizing authority only to increase the size of the Clearing Fund where appropriate, not to decrease the size of the Clearing Fund.

¹⁷ On a daily basis, OCC computes its exposure under the idiosyncratic and minor systemic events. The greater of these two exposures is that day's "peak exposure." To calculate the "rolling five day average" OCC computes the average of the peak exposure for each consecutive five-day period observed over the prior three-month period. To determine the Base Amount, OCC would use the largest five-day rolling average observed over the

OCC believes that the proposed Monthly Clearing Fund Sizing Procedure provides a sound and prudent approach to ensure that the Financial Resources are adequate to protect against the largest risk of loss presented by the default of a Clearing Member or Clearing Member Group. By virtue of using only the peak five-day rolling average and by extending the look-back period, the proposed Monthly Clearing Fund Sizing Procedure is both more responsive to sudden increases in exposure and less susceptible to recently observed decreases in exposure that would reduce the overall sizing of the Clearing Fund, thus mitigating procyclicality.¹⁸ Furthermore, the prudential margin of safety provides an additional buffer to absorb potential future exposures not previously observed during the look-back period. The proposed Monthly Clearing Fund Sizing Procedure would be supplemented by the Financial Resource Monitoring and Call Procedure, described below, to provide further assurance that the Financial Resources are adequate to protect against such risk of loss.

Financial Resource Monitoring and Call Procedure

Under the Financial Resource Monitoring and Call Procedure, OCC would use the same daily idiosyncratic default calculation as under the Monthly Clearing Fund Sizing Procedure to monitor daily the adequacy of the Financial Resources to withstand a default by the Clearing Member or Clearing Member Group presenting the largest exposure under extreme but

past three-months. This methodology was used to determine the Base Amount of the Clearing Fund for November 2014 and December 2014.

¹⁸ Considering only the peak exposures is a more conservative methodology that gives greater weighting to sudden increases in exposure experienced by Clearing Members, thus enhancing the responsiveness of the procedure to such sudden increases. By using a longer look-back period, the methodology would respond more slowly to recently observed decreases in peak exposures.

plausible market conditions.¹⁹ If such a daily idiosyncratic default calculation projected a draw on the Clearing Fund (a “Projected Draw”) that is at least 75% of the Clearing Fund maintained by OCC, OCC would be required to issue an intra-day margin call pursuant to Rule 609 against the Clearing Member or Clearing Member Group that caused such a draw (“Margin Call Event”).²⁰ Subject to a limitation described below, the amount of the margin call would be the difference between the Projected Draw and the Base Clearing Fund (“Exceedance Above Base Amount”). In the case of a Clearing Member Group that causes the Exceedance Above Base Amount, the Exceedance Above Base Amount would be pro-rated among the individual Clearing Members that compose the Clearing Member Group based on each individual Clearing Member’s proportionate share of the “total risk” for such Clearing Member Group as defined in Rule 1001(b), i.e., the margin requirement with respect to all accounts of the Clearing Member Group exclusive of the net asset value of the positions in such accounts aggregated across all such accounts. However, in the case of an individual Clearing Member or a Clearing Member Group, the margin call would be subject to a limitation under which it could not exceed the

¹⁹ Since the minor systemic default scenario contemplates two Clearing Members’ simultaneously defaulting and OCC maintains Financial Resources sufficient to cover a default by a Clearing Member or Clearing Member Group representing the greatest exposure to OCC, OCC does not use the minor systemic default scenario to determine the adequacy of the Financial Resources under the Financial Resource Monitoring and Call Procedure.

²⁰ Rule 609 authorizes OCC to require the deposit of additional margin in any account at any time during any business day by any Clearing Member for, *inter alia*, the protection of OCC, other Clearing Members or the general public. Clearing Members must meet a required deposit of intra-day margin in immediately available funds at a time prescribed by OCC or within one hour of OCC’s issuance of debit settlement instructions against the bank account(s) of the applicable Clearing Member(s), thereby ensuring the prompt deposit of additional Financial Resources.

lower²¹ of: (a) \$500 million, or (b) 100% of a Clearing Member's net capital, measured cumulatively with any other funds deposited with OCC by the same Clearing Member pursuant to a Margin Call Event within the same month (the "500/100 Limitation").²²

Upon satisfaction of the margin call, OCC would use its authority under Rule 608 to preclude the withdrawal of such additional margin amount until the next monthly resizing of the Clearing Fund. Based on three years of back testing data, OCC determined that it would have had Margin Call Events in 10 of the months during this time period. For each of these months, the maximum call amount would have been equal to \$500 million, with one exception in which the maximum call amount for the month was \$7.7 million.²³ After giving effect to the intra-day margin calls, *i.e.*, by increasing the Financial Resources by \$500 million, there was only one Margin Call Event where there was an observed stress test exceedance of the Financial Resources.

To address this one observed instance, the Financial Resource Monitoring and Call Procedure also would require OCC to increase the size of the Clearing Fund ("Clearing Fund Intra-month Increase Event") if a Projected Draw exceeds 90% of the Clearing Fund, after

²¹ "Capping" the intra-day margin call avoids placing a "liquidity squeeze" on the subject Clearing Member(s) based on exposures presented by a hypothetical stress test, which would have the potential for causing a default on the intra-day margin call. Back testing results determined that such calls would have been made against Clearing Members that are large, well-capitalized firms, with more than sufficient resources to satisfy the call for additional margin with the proposed limitations.

²² The Risk Committee would be notified, and could take action to address potential Financial Resource deficiencies, in the event that a Projected Draw resulted in a Margin Call Event and as a result of the 500/100 Limitation the margin call was less than the Exceedance Above Base Amount, but the Projected Draw was not so large as to result in an increase in the Clearing Fund as discussed below.

²³ The back testing analysis performed assumed a single Clearing Member caused the exceedance.

applying any funds then on deposit with OCC from the applicable Clearing Member or Clearing Member Group pursuant to a Margin Call Event. The amount of such increase (“Clearing Fund Increase”) would be the greater of: (a) \$1 billion; or (b) 125% of the difference between (i) the Projected Draw, as reduced by the deposits resulting from the Margin Call Event and (ii) the Clearing Fund. Each Clearing Member’s proportionate share of the Clearing Fund Increase would equal its proportionate share of the variable portion of the Clearing Fund for the month in question as calculated pursuant to Rule 1001(b). OCC would notify the Risk Committee of the Board of Directors (the “Risk Committee”), Clearing Members and appropriate regulatory authorities of the Clearing Fund Increase on the business day on which the Clearing Fund Intra-month Increase Event occurred. This ensures that OCC management maintains authority to address any potential Financial Resource deficiencies when compared to its Projected Draw estimates. The Risk Committee would then determine whether the Clearing Fund Increase was sufficient, and would retain authority to increase the Clearing Fund Increase or the margin call made pursuant to a Margin Call Event in its discretion. Clearing Members would be required to meet the call for additional Clearing Fund assets by 9:00 AM CT on the second business day following the Clearing Fund Intra-Month Increase Event. OCC believes that this collection process ensures additional Clearing Fund assets are promptly deposited by Clearing Members following notice of a Clearing Fund Increase, while also providing Clearing Members with a reasonable period of time to source such assets. Based on OCC’s back testing results, after giving effect to the intra-day margin call in response to a Margin Call Event plus the prudential margin of safety, the Financial Resources would have been sufficient upon implementing the one instance of a Clearing Fund Intra-month Increase Event.

OCC believes the Financial Resource Monitoring and Call Procedure strikes a prudent balance between mutualizing the burden of requiring additional Financial Resources and requiring the Clearing Member or Clearing Member Group causing the increased exposure to bear such burden. As noted above, in the event of a Margin Call Event, OCC limits the margin call to a monthly aggregate of \$500 million, or 100% of a Clearing Member's net capital in order to avoid putting an undue liquidity strain on any one Clearing Member. However, where a Projected Draw exceeds 90% of OCC's Clearing Fund, OCC must act to ensure that it has sufficient Financial Resources, and determined that it should mutualize the burden of the additional Financial Resources at this threshold through a Clearing Fund Increase. OCC believes that this balance would provide OCC with sufficient Financial Resources without increasing the likelihood that its procedures would, based solely on stress testing results, cause a liquidity strain on any on Clearing Member that could result in such member's default.

The following examples illustrate the manner in which the Financial Resource Monitoring and Call Procedure would be applied. All assume that the Clearing Fund size is \$7.8 billion, \$6 billion of which is the Base Amount and \$1.8 billion of which is the prudential margin of safety. The 75% threshold in these examples is \$5.85 billion.

Example 1: Single CM

Under OCC's stress testing the Projected Draw attributable to Clearing Member ABC, a Clearing Member with no affiliated Clearing Members and net capital of \$500 million, is \$6.4 billion, or 82% of the Clearing Fund. OCC would make a margin call for \$400 million, which represents the Exceedance Above Base Amount. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of the Clearing Member's net capital. The Clearing Member would be required to

meet the \$400 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$400 million until the next monthly Clearing Fund sizing calculation.

If, on a different day within the same month, CM ABC's Projected Draw minus the \$400 million already deposited with OCC results in an Exceedance above Base Amount, another Margin Call Event would be triggered, with the amount currently deposited with OCC applying toward the 500/100 Limitation.

Example 2: Clearing Member Group

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group DEF, comprised of two Clearing Members each with net capital of \$800 million, is \$6.2 billion, or 79% of OCC's Clearing Fund. OCC would initiate a margin call on Clearing Member Group DEF for \$200 million. The call would be allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. In this case the 500/100 Limitation would not be applicable because the Exceedance Above Base Amount is less than \$500 million and 100% of net capital. The margin call would be required to be met within one hour of the call unless OCC prescribed a different time. For example, in the case where one Clearing Member accounts for 75% of the risk margin for the Clearing Member Group, that Clearing Member would be allocated \$150 million of the call and the other Clearing Member, accounting for 25% of the risk margin for the Clearing Member Group, would be allocated \$50 million of the call. The funds would remain deposited with OCC until the next monthly Clearing Fund sizing calculation.

Example 3: Clearing Member Group with \$500 million cap

Under OCC's stress testing the Projected Draw attributable to Clearing Member Group GHI, comprised of two Clearing Members each with net capital of \$800 million, is \$6.8

billion, or 87% of the Clearing Fund. The Exceedance Above Base Amount would be \$800 million, allocated to the two Clearing Members that compose the Clearing Member Group based on each Clearing Member's risk margin allocation. Using the 75/25 risk margin allocation from Example 2, one Clearing Member would be allocated \$600 million and the other Clearing Member would be allocated \$200 million. The first Clearing Member would be required to deposit \$500 million with OCC, which is the lowest of \$500 million, that member's net capital, or that member's share of the Exceedance Above Base Amount, and the other Clearing Member would be required to deposit \$200 million with OCC. After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of \$6.1 billion, which is the original Projected Draw of \$6.8 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 78% would be below the 90% threshold, and accordingly there would not be a Clearing Fund Intra-month Increase Event.

Example 4: Margin Call and Increase in Size of Clearing Fund

Under OCC's stress testing the Projected Draw attributable to Clearing Member JKL, a Clearing Member with no affiliated Clearing Members and net capital of \$600 million, is \$10.0 billion, or 128% of the Clearing Fund. OCC would make a margin call for \$500 million, which represents the lowest of the Exceedance Above Base Amount, \$500 million and 100% of net capital. The Clearing Member would be required to meet the \$500 million call within one hour unless OCC prescribed a different time, and OCC would retain the \$500 million until the next monthly Clearing Fund sizing calculation.

After collecting the additional margin, OCC would determine whether the Projected Draw would exceed 90% of the Clearing Fund after reducing the Projected Draw by the additional margin. This calculation would divide a Projected Draw of \$9.5 billion, which is the original Projected Draw of \$10 billion reduced by the additional margin, by the Clearing Fund of \$7.8 billion. The resulting percentage of 122%, while lower, would still exceed the 90% threshold, and accordingly OCC would declare a Clearing Fund Intra-month Increase Event. To calculate the Clearing Fund Increase, OCC would first determine the difference between the modified Projected Draw (\$9.5 billion) and the Clearing Fund (\$7.8 billion), which in this case would be \$1.7 billion, OCC would then multiply this by 1.25, resulting in \$2.125 billion. Because this amount is greater than \$1 billion, the Clearing Fund Increase would be \$2.125 billion and a modified Clearing Fund of OCC totaling \$9.925 billion (\$425 million in excess of the modified Projected Draw of \$9.5 billion).

2. Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²⁴ and the rules and regulations thereunder. By establishing sound procedures governing the monthly resizing of the Clearing Fund and how OCC would add Financial Resources in response to a Margin Call Event and a Clearing Fund Intra-month Increase Event, the proposed modifications would further ensure that OCC is capable of safeguarding securities and funds which are in the custody or control of OCC or for which it is responsible and protecting investors and the public interest. The development of the Monthly Clearing Fund Sizing Procedure and the Financial Resource Monitoring and Call Procedure also ensures that OCC has procedures designed to maintain sufficient financial resources to withstand, at a minimum, a default by the

²⁴ 15 U.S.C. 78q-1(b)(3)(F).

participant family to which it has the largest exposure in extreme but plausible market conditions, in compliance with Rule 17Ad-22(b)(3).²⁵

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

OCC does not believe that the proposed rule change would impose any burden on competition.²⁶ OCC believes 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 OCC would establish the size of the Clearing Fund in accordance with the Monthly Clearing Fund Sizing Procedure and without regard to any particular user or Clearing Member that makes Clearing Fund contributions. Furthermore, OCC would respond to a Margin Call Event and Clearing Fund Intra-month Increase Event in accordance with the Financial Resource Monitoring and Call Procedure without regard to any particular user or Clearing Member.

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.

(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.

²⁵ 17 CFR 240.17Ad-22(b)(3).

²⁶ 15 U.S.C. 78-q1(b)(3)(I).

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 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-2014-22 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-2014-22. 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_14_22.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-2014-22 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.²⁷

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: _____

²⁷ 17 CFR 200.30-3(a)(12).