OCC THE FOUNDATION FOR SECURE MARKETS

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

August 15, 2018

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

Re: Rule Filing SR-OCC-2018-011 Rule Certification

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and Commodity Futures Trading Commission ("CFTC") Regulation 40.6, 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 ("SEC") or otherwise becomes effective under the Securities Exchange Act of 1934 ("Exchange Act"). This rule filing has been submitted to the SEC under the Exchange Act.

OCC has requested confidential treatment for Exhibits 5A and 5B to SR-OCC-2018-011, the Margin Policy and Margins Methodology, contained in pages 21-42 of the enclosed filing.

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

Explanation and Analysis

OCC's margin methodology, the System for Theoretical Analysis and Numerical Simulations ("STANS"), is OCC's proprietary risk management system that calculates Clearing Member margin requirements.[1] STANS utilizes large-scale Monte Carlo simulations to forecast price and volatility movements in determining a Clearing Member's margin requirement.[2] The STANS margin requirement is calculated at the portfolio level of Clearing Member accounts with positions in marginable securities and consists of an estimate of a 99% expected shortfall[3] over a

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1 See Securities Exchange Act Release No. 53322 (February 15, 2006), 71 FR 9403 (February 23, 2006) (SR-OCC-2004-20).

2 See OCC Rule 601.

3 The expected shortfall component is established as the estimated average of potential losses higher than the 99% value at risk threshold. The term "value at risk" or "VaR" refers to a statistical

two-day time horizon and an add-on margin charge for model risk (the concentration/dependence stress test charge).[4] The STANS methodology is used to measure the exposure of portfolios of options and futures cleared by OCC and cash instruments in margin collateral.

On December 28, 2017, OCC certified with the CFTC proposed changes to its margin methodology designed to enable OCC to: (1) obtain daily price data for equity products for use in the daily estimation of econometric model parameters; (2) enhance OCC's econometric model for updating statistical parameters for all risk factors that reflect the most recent data obtained; (3) improve the sensitivity and stability of correlation estimates across risk factors by using de-volatized returns; and (4) improve OCC's methodology related to the treatment of defaulting securities ("Initial Filing").[5] The purpose of this proposed rule change is to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology related to the implementation of the methodology enhancements in the Initial Filing. The proposed changes are described in detail below.

OCC proposes to revise its Margin Policy to reflect the use of daily price data in its margin models. Under the Initial Filing, the statistical parameters for OCC's econometric model would be updated on a daily basis using the new daily price data obtained by OCC.[6] As a result, OCC would no longer need to rely on scale factors to approximate day-to-day market volatility for equity-based products.[7] Instead, statistical parameters would be calibrated on a daily basis, allowing OCC to calculate more accurate margin requirements that are representative of the most recent market data. OCC therefore proposes to make conforming changes to its Margin Policy to remove references to scale factors and to provide that market data would be recalibrated on an at least weekly-basis with a daily recalibration performed where possible (as opposed to recalibrating on a monthly-basis).

OCC also proposes to revise its Margins Methodology to clarify certain constraints on first and second day conditional variance estimates that would be imposed as part of the implementation of the methodology enhancements in the Initial Filing. As part of the Initial Filing, OCC introduced

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technique that, generally speaking, is used in risk management to measure the potential risk of loss for a given set of assets over a particular time horizon.

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

5 See also Securities Exchange Act Release No. 83326 (May 24, 2018), 83 FR 25081 (May 31, 2018) (SR-OCC-2017-022) and Securities Exchange Act Release No. 83305 (May 23, 2018), 83 FR 24536 (May 29, 2018) (SR-OCC-2017-811).

6 Id.

7 Prior to the implementation of daily updates, OCC would continue to employ an approach where one or many identified market proxies (or "scale-factors") are used to incorporate day-to-day market volatility across all associated asset classes throughout. See Securities Exchange Act Release No. 80147 (March 3, 2017), 82 FR 13163 (March 9, 2017) (SR-OCC-2017-001) and Securities Exchange Act Release No. 80143 (March 2, 2017), 82 FR 13036 (March 8, 2017) (SR-OCC-2017-801).

a second-day forecast for volatility into the model to estimate the two-day scenario distributions for risk factors.[8] OCC proposes to clarify in its Margins Methodology that OCC would impose an upper-bound limitation on the second-day conditional variance estimate in order to ensure that the expected shortfall is finite. Specifically, in the implementation of the new methodology, OCC would floor the day-ahead and second-day conditional variance for STANS at 100% every day.

Finally, OCC proposes to revise its Margins Methodology to clarify that the proposed changes from the Initial Filing and the proposed changes described herein would not be implemented until October 1, 2018.

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 implementing the proposed rule change will be consistent with the Core Principle D,[9] which requires, in general, that each DCO possess the ability to manage the risks associated with discharging the responsibilities of the DCO through the use of appropriate tools and procedures. The proposed rule change is intended to facilitate the implementation of enhancements to OCC's margin methodology that were previously certified with the CFTC[10] by making a number of clarifying and conforming changes to OCC's Margin Policy and Margins Methodology. Specifically, the proposed rule change is designed to improve OCC's policy and methodology documentation by clarifying certain implementation details of the methodology changes in the Initial Filing, ensuring that OCC's Margin Policy is properly aligned with the methodology enhancements upon their implementation, and clarifying the implementation date for these changes. Taken together, the proposed changes are designed to enhance OCC's margin methodology so that it considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market and to calculate margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. As a result, OCC believes the proposed changes are designed to promote OCC's ability to manage the risks associated with

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8 See supra note 5 and associated text.

9 7 U.S.C. 7a-1(c)(2)(D).

10 The proposed changes in the Initial Filing are designed to ensure that, among other things, OCC's margin methodology: (i) more appropriately accounts for asymmetry in conditional variance; (ii) more appropriately models the statistical distribution of price returns, (iii) more accurately models second-day volatility forecasts; (iv) improves OCC's approach to estimating covariance and correlations between risk factors to provide for stable and sensitive correlation estimations; and (v) improves OCC's methodology related to the treatment of defaulting securities by reducing the impact that illiquid securities with discontinuous data have on default variance estimates. See supra note 5 and associated text.

discharging its responsibilities as a DCO, particularly with respect to the implementation of the proposed changes previously certified in the Initial Filing.

In this regard, the proposed changes would further OCC's compliance with Core Principle D.

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,

Justin W. Byrne
Vice President, Regulatory Filings

Enclosure

OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 011

Amendment No. (req. for Amendments *)

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 *

Rule

☑ 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 *).

Proposed rule change to make clarifying and conforming changes to The Options Clearing Corporation's Margins Methodology and Margin Policy.

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 * Justin Last Name * Byrne
Title * Vice President, Regulatory Filings
E-mail * jbyrne@theocc.com
Telephone * (202) 971-7238 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.

Date 07/24/2018
By Justin W. Byrne
(Name *)

(Title *)
Vice President, Regulatory Filings

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.

Justin Byrne, jbyrne@theocc.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS 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 Exhibit Sent As Paper Document ☐	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 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	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 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**

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),[1] The Options Clearing Corporation ("OCC") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology related to enhancements to OCC's margin methodology that were recently approved by the Commission. The proposed changes to the Margin Policy and Margins Methodology are included as confidential Exhibits 5A and 5B, respectively. Material proposed to be added to the Margin Policy and Margins Methodology as currently in effect is underlined and material proposed to be deleted is marked in strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.[2]

Item 2. **Procedures of the Self-Regulatory Organization**

The proposed changes to the Margins Methodology were approved for filing with the Commission by the Board of Directors at a meeting held on February 24, 2017, and the Risk Committee of the Board of Directors at a meeting held on May 2, 2017. The proposed changes to the Margin Policy were approved for filing with the Commission by the Board of Directors at a meeting held on December 13, 2017.

Questions should be addressed to Justin W. Byrne, Vice President, Regulatory Filings, at (202) 971-7238.

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1 15 U.S.C. 78s(b)(1).

2 OCC's By-Laws and Rules can be found on OCC's public website: http://optionsclearing.com/about/publications/bylaws.jsp.

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

A. Purpose

Background

OCC's margin methodology, the System for Theoretical Analysis and Numerical Simulations ("STANS"), is OCC's proprietary risk management system that calculates Clearing Member margin requirements.[3] STANS utilizes large-scale Monte Carlo simulations to forecast price and volatility movements in determining a Clearing Member's margin requirement.[4] The STANS margin requirement is calculated at the portfolio level of Clearing Member accounts with positions in marginable securities and consists of an estimate of a 99% expected shortfall[5] over a two-day time horizon and an add-on margin charge for model risk (the concentration / dependence stress test charge).[6] The STANS methodology is used to measure the exposure of portfolios of options and futures cleared by OCC and cash instruments in margin collateral.

On May 23, 2018, the Commission issued a Notice of No Objection to OCC's advance notice filing concerning a number of enhancements to OCC's margin methodology.[7] The proposed changes were designed to enable OCC to: (1) obtain daily price data for equity products for use in the daily estimation of econometric model parameters; (2) enhance OCC's

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3 See Securities Exchange Act Release No. 53322 (February 15, 2006), 71 FR 9403 (February 23, 2006) (SR-OCC-2004-20).

4 See OCC Rule 601.

5 The expected shortfall component is established as the estimated average of potential losses higher than the 99% value at risk threshold. The term "value at risk" or "VaR" refers to a statistical technique that, generally speaking, is used in risk management to measure the potential risk of loss for a given set of assets over a particular time horizon.

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

7 See Securities Exchange Act Release No. 83305 (May 23, 2018), 83 FR 24536 (May 29, 2018) (SR-OCC-2017-811).

econometric model for updating statistical parameters for all risk factors that reflect the most recent data obtained; (3) improve the sensitivity and stability of correlation estimates across risk factors by using de-volatized returns; and (4) improve OCC's methodology related to the treatment of defaulting securities. On May 24, 2018, the Commission approved a proposed rule changed by OCC concerning these same enhancements (collectively with the advance notice filing, the "Initial Filings").[8] The purpose of this proposed rule change is to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology related to the implementation of the methodology enhancements in the Initial Filings. The proposed changes are described in detail below.

Proposed Changes

OCC proposes to revise its Margin Policy to reflect the use of daily price data in its margin models. Under the Initial Filings, the statistical parameters for OCC's econometric model would be updated on a daily basis using the new daily price data obtained by OCC.[9] As a result, OCC would no longer need to rely on scale factors to approximate day-to-day market volatility for equity-based products.[10] Instead, statistical parameters would be calibrated on a

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8 See Securities Exchange Act Release No. 83326 (May 24, 2018), 83 FR 25081 (May 31, 2018) (SR-OCC-2017-022).

9 See supra notes 7 and 8.

10 Prior to the implementation of daily updates, OCC would continue to employ an approach where one or many identified market proxies (or "scale-factors") are used to incorporate day-to-day market volatility across all associated asset classes throughout. In 2017, the Commission approved a proposed rule change and issued a Notice of No Objection to an advance notice filing by OCC which, among other things: (1) expanded the number of scale factors used for equity-based products to more accurately measure the relationship between current and long-run market volatility with proxies that correlate more closely to certain products carried within the equity asset class, and (2) applied relevant scale factors to the greater of (i) the estimated variance of 1-day return scenarios or (ii) the historical variance of the daily return scenarios of a particular instrument, as a floor to mitigate procyclicality. See Securities Exchange Act Release No. 80147 (March 3, 2017), 82 FR 13163 (March 9, 2017) (SR-OCC-2017-001) and Securities Exchange Act Release No. 80143 (March 2, 2017), 82 FR 13036 (March 8, 2017) (SR-OCC-2017-801).

daily basis, allowing OCC to calculate more accurate margin requirements that are representative of the most recent market data. OCC therefore proposes to make conforming changes to its Margin Policy to remove references to scale factors and to provide that market data would be recalibrated on an at least weekly-basis with a daily recalibration performed where possible (as opposed to recalibrating on a monthly-basis).

OCC also proposes to revise its Margins Methodology to clarify certain constraints on first and second day conditional variance estimates that would be imposed as part of the implementation of the methodology enhancements in the Initial Filings. As part of the Initial Filings, OCC introduced a second-day forecast for volatility into the model to estimate the two-day scenario distributions for risk factors.[11] OCC proposes to clarify in its Margins Methodology that OCC would impose an upper-bound limitation on the second-day conditional variance estimate in order to ensure that the expected shortfall is finite. Specifically, in the implementation of the new methodology, OCC would floor the day ahead and second day conditional variance for STANS at 100% every day.

Finally, OCC proposes to revise its Margins Methodology to clarify that the proposed changes from the Initial Filings and the proposed changes described herein would not be implemented until October 1, 2018.

B. Statutory Basis

Section 17A(b)(3)(F) of the Act, requires, among other things, that the rules of a clearing agency be designed, in general, to protect investors and the public interest.[12] The proposed rule change would make a number of clarifying and conforming changes to OCC's Margin Policy

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11 See supra notes 7 and 8.

12 17 U.S.C. 78q-1(b)(3)(F).

and Margins Methodology related to enhancements to OCC's margin methodology that were recently approved by the Commission.[13] Specifically, the proposed rule change is designed to improve OCC's policy and methodology documentation by clarifying certain implementation details of the methodology changes in the Initial Filings, ensuring that OCC's Margin Policy is properly aligned with the methodology enhancements upon their implementation, and clarifying the implementation date for these changes. OCC believes that the proposed rule change is therefore designed, in general, to protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.[14]

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

Section 17A(b)(3)(I) of the Act[15] requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would have any impact or impose a burden on competition. The proposed rule change is intended to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology in connection with the implementation of a proposed rule change that was previously approved by the Commission. Accordingly, OCC does not believe that the proposed rule change would have any impact or 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.

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[13] See supra notes 7 and 8 and associated text.

[14] 17 U.S.C. 78q-1(b)(3)(F).

[15] 15 U.S.C. 78q-1(b)(3)(I).

Item 6. **Extension of Time Period for Commission Action**

OCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.[16]

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)**

Pursuant to Section 19(b)(3)(A)[17] of the Act, and Rule 19b-4(f)(1) thereunder,[18] the proposed rule change is filed for immediate effectiveness as it constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. The proposed rule change would make a number of clarifying and conforming changes to OCC's Margin Policy and Margins Methodology concerning the implementation, meaning and administration of certain enhancements to OCC's margin methodology that were recently approved by the Commission.[19] Accordingly, the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning and administration of an existing rule of OCC.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.[20]

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[16] 15 U.S.C. 78s(b)(2).

[17] 15 U.S.C. 78s(b)(3)(A).

[18] 17 CFR 240.19b-4(f)(1).

[19] See supra note 8 and associated text.

[20] Notwithstanding its immediate effectiveness, implementation of this rule change will be delayed until (1) this change is deemed certified under CFTC Regulation 40.6 and (2) the implementation of the related methodology enhancements on October 1, 2018.

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.

Exhibit 5A. Margin Policy

Exhibit 5B. Margins Methodology

**Exhibits 5A and 5B redacted and filed separately with the Commission.
Confidential treatment of Exhibits 5A and 5B is requested by OCC pursuant to Exchange Act Rule 24b-2.**

SIGNATURES

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

THE OPTIONS CLEARING CORPORATION

By: ______________________________________

Justin W. Byrne
Vice President, Regulatory Filings

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_______________]; File No. SR-OCC-2018-011)

July __, 2018

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Clarifying and Conforming Changes to The Options Clearing Corporation's Margins Methodology and Margin Policy

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 24, 2018, 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. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)[3] of the Act and Rule 19b-4(f)(1)[4] thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. <u>Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change</u>

OCC proposes to make clarifying and conforming changes to its Margin Policy and Margins Methodology related to enhancements to OCC's margin methodology that were recently approved by the Commission. The proposed changes to the Margin Policy and Margins Methodology are included as confidential Exhibits 5A and 5B, respectively. Material proposed to be added to the Margin Policy and Margins Methodology as

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

[3] 15 U.S.C. 78s(b)(3)(A).

[4] 17 CFR 240.19b-4(f)(1).

currently in effect is underlined and material proposed to be deleted is marked in strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.[5]

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

Background

OCC's margin methodology, the System for Theoretical Analysis and Numerical Simulations ("STANS"), is OCC's proprietary risk management system that calculates Clearing Member margin requirements.[6] STANS utilizes large-scale Monte Carlo simulations to forecast price and volatility movements in determining a Clearing Member's margin requirement.[7] The STANS margin requirement is calculated at the portfolio level of Clearing Member accounts with positions in marginable securities and

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5 OCC's By-Laws and Rules can be found on OCC's public website: http://optionsclearing.com/about/publications/bylaws.jsp.

6 See Securities Exchange Act Release No. 53322 (February 15, 2006), 71 FR 9403 (February 23, 2006) (SR-OCC-2004-20).

7 See OCC Rule 601.

consists of an estimate of a 99% expected shortfall[8] over a two-day time horizon and an add-on margin charge for model risk (the concentration / dependence stress test charge).[9] The STANS methodology is used to measure the exposure of portfolios of options and futures cleared by OCC and cash instruments in margin collateral.

On May 23, 2018, the Commission issued a Notice of No Objection to OCC's advance notice filing concerning a number of enhancements to OCC's margin methodology.[10] The proposed changes were designed to enable OCC to: (1) obtain daily price data for equity products for use in the daily estimation of econometric model parameters; (2) enhance OCC's econometric model for updating statistical parameters for all risk factors that reflect the most recent data obtained; (3) improve the sensitivity and stability of correlation estimates across risk factors by using de-volatized returns; and (4) improve OCC's methodology related to the treatment of defaulting securities. On May 24, 2018, the Commission approved a proposed rule changed by OCC concerning these same enhancements (collectively with the advance notice filing, the "Initial Filings").[11] The purpose of this proposed rule change is to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology related to the implementation of the

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8 The expected shortfall component is established as the estimated average of potential losses higher than the 99% value at risk threshold. The term "value at risk" or "VaR" refers to a statistical technique that, generally speaking, is used in risk management to measure the potential risk of loss for a given set of assets over a particular time horizon.

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

10 See Securities Exchange Act Release No. 83305 (May 23, 2018), 83 FR 24536 (May 29, 2018) (SR-OCC-2017-811).

11 See Securities Exchange Act Release No. 83326 (May 24, 2018), 83 FR 25081 (May 31, 2018) (SR-OCC-2017-022).

methodology enhancements in the Initial Filings. The proposed changes are described in detail below.

Proposed Changes

OCC proposes to revise its Margin Policy to reflect the use of daily price data in its margin models. Under the Initial Filings, the statistical parameters for OCC's econometric model would be updated on a daily basis using the new daily price data obtained by OCC.[12] As a result, OCC would no longer need to rely on scale factors to approximate day-to-day market volatility for equity-based products.[13] Instead, statistical parameters would be calibrated on a daily basis, allowing OCC to calculate more accurate margin requirements that are representative of the most recent market data. OCC therefore proposes to make conforming changes to its Margin Policy to remove references to scale factors and to provide that market data would be recalibrated on an at least weekly-basis with a daily recalibration performed where possible (as opposed to recalibrating on a monthly-basis).

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[12] See supra notes 10 and 11.

[13] Prior to the implementation of daily updates, OCC would continue to employ an approach where one or many identified market proxies (or "scale-factors") are used to incorporate day-to-day market volatility across all associated asset classes throughout. In 2017, the Commission approved a proposed rule change and issued a Notice of No Objection to an advance notice filing by OCC which, among other things: (1) expanded the number of scale factors used for equity-based products to more accurately measure the relationship between current and long-run market volatility with proxies that correlate more closely to certain products carried within the equity asset class, and (2) applied relevant scale factors to the greater of (i) the estimated variance of 1-day return scenarios or (ii) the historical variance of the daily return scenarios of a particular instrument, as a floor to mitigate procyclicality. See Securities Exchange Act Release No. 80147 (March 3, 2017), 82 FR 13163 (March 9, 2017) (SR-OCC-2017-001) and Securities Exchange Act Release No. 80143 (March 2, 2017), 82 FR 13036 (March 8, 2017) (SR-OCC-2017-801).

OCC also proposes to revise its Margins Methodology to clarify certain constraints on first and second day conditional variance estimates that would be imposed as part of the implementation of the methodology enhancements in the Initial Filings. As part of the Initial Filings, OCC introduced a second-day forecast for volatility into the model to estimate the two-day scenario distributions for risk factors.[14] OCC proposes to clarify in its Margins Methodology that OCC would impose an upper-bound limitation on the second-day conditional variance estimate in order to ensure that the expected shortfall is finite. Specifically, in the implementation of the new methodology, OCC would floor the day ahead and second day conditional variance for STANS at 100% every day.

Finally, OCC proposes to revise its Margins Methodology to clarify that the proposed changes from the Initial Filings and the proposed changes described herein would not be implemented until October 1, 2018.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act, requires, among other things, that the rules of a clearing agency be designed, in general, to protect investors and the public interest.[15] The proposed rule change would make a number of clarifying and conforming changes to OCC's Margin Policy and Margins Methodology related to enhancements to OCC's margin methodology that were recently approved by the Commission.[16] Specifically, the proposed rule change is designed to improve OCC's policy and methodology documentation by clarifying certain implementation details of the methodology changes in the Initial Filings, ensuring that OCC's Margin Policy is properly aligned with the

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14 See supra notes 10 and 11.

15 17 U.S.C. 78q-1(b)(3)(F).

16 See supra notes 10 and 11 and associated text.

methodology enhancements upon their implementation, and clarifying the implementation date for these changes. OCC believes that the proposed rule change is therefore designed, in general, to protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.[17]

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

Section 17A(b)(3)(I) of the Act[18] requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would have any impact or impose a burden on competition. The proposed rule change is intended to make clarifying and conforming changes to OCC's Margin Policy and Margins Methodology in connection with the implementation of a proposed rule change that was previously approved by the Commission. Accordingly, OCC does not believe that the proposed rule change would have any impact or 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.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[19] and Rule 19b-4(f)(1)[20] thereunder because it constitutes a stated policy,

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17 17 U.S.C. 78q-1(b)(3)(F).

18 15 U.S.C. 78q-1(b)(3)(I).

19 15 U.S.C. 78s(b)(3)(A).

20 17 CFR 240.19b-4(f)(1).

practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.[21]

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 Commission's 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-2018-011 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2018-011. 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

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21 Notwithstanding its immediate effectiveness, implementation of this rule change will be delayed until (1) this change is deemed certified under CFTC Regulation 40.6 and (2) the implementation of the related methodology enhancements on October 1, 2018.

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 Room, 100 F Street, NE, 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 https://www.theocc.com/about/publications/bylaws.jsp.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2018-011 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.[22]

Secretary

[22] 17 CFR 200.30-3(a)(12).