November 6, 2017

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-2017-010 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"). OCC intends to formalize its Default Management Policy no sooner than 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 (the "Exchange Act"). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act.

OCC has requested confidential treatment for Exhibit 5 to SR-OCC-2017-010, the Default Management Policy, contained in pages 37-45 of the enclosed filing.

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

Explanation and Analysis

This proposed rule change by OCC would formalize OCC's Default Management Policy ("DM Policy" or "Policy"). The Policy is included in confidential Exhibit 5 of the filing. The Policy is being submitted without marking to improve readability as it is being submitted in its entirety as new rule text. The proposed rule change does not require any changes to the text of OCC's By-Laws or Rules. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the OCC By-Laws and Rules.[1]

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

Default Management Policy

OCC proposes to formalize its DM Policy, which would apply in the event of a default by a Clearing Member, settlement bank or a financial market utility with which OCC has a relationship ("FMU").[2] The purpose of the policy is to outline OCC's default management framework and describe the default management steps that OCC has authority to take depending upon the facts and circumstances of a default. The DM Policy focuses on Clearing Member default, which OCC believes is appropriate because Clearing Member default represents a substantial part of the overall default risk that is posed to OCC in connection with its central counterparty clearing services.[3]

OCC notes that the DM Policy is part of a broader framework used by OCC to manage the default of a Clearing Member, settlement bank or FMU, including OCC's By-Laws, Rules, and other policies and procedures. The broader framework is designed to collectively ensure that OCC would appropriately manage any such default consistent with OCC's obligations as a covered clearing agency and derivatives clearing organization.[4]

The DM Policy describes the authority of OCC's Board of Directors ("Board") or a Designated Officer[5] to summarily suspend a Clearing Member pursuant to OCC Rule 1102(a) in the event the Clearing Member defaults. The DM Policy further provides that, pursuant to OCC Rule 707, OCC may suspend a Clearing Member that participates in a cross-margining program in the event of a default regarding its cross-margining accounts. Upon any suspension of a Clearing Member, the DM Policy states that OCC would immediately notify a number of parties, including the suspended Clearing Member, regulatory authorities, participant and other

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[2] Examples of such FMUs contemplated by the DM Policy are the following securities or commodities clearing organizations: The Depository Trust Company, National Securities Clearing Corporation, and the Chicago Mercantile Exchange. In an event of default by one of these securities or commodities clearing organizations, or by a settlement bank, OCC has authority under certain conditions pursuant to Article VIII, Section 1.(a)(vii) and 5.(b) of the By-Laws to manage the default using Clearing Member contributions to the Clearing Fund.

[3] For purposes of the DM Policy, references to a Clearing Member suspension or default contemplate the circumstances specified in OCC Rule 1102, which constitute events of "default" under Interpretation and Policy .01 to the Rule.

[4] In this regard, the DM Policy provides that OCC publishes key aspects of its default management Rules and procedures on its website. The summary is available at https://www.theocc.com/risk-management/default-rules/.

[5] For this purpose, the term Designated Officer includes the Executive Chairman, Chief Administrative Officer ("CAO"), Chief Operating Officer ("COO"), Chief Risk Officer ("CRO") and Executive Vice President – Financial Risk Management ("EVP-FRM").

exchanges (as applicable) in which the suspended Clearing Member is a common member, other Clearing Members,[6] and OCC's Board.[7]

In the event of a Clearing Member suspension, the DM Policy provides that OCC's Financial Risk Management department ("FRM") shall prepare an exposure summary report to be provided to OCC's Management Committee detailing, among other things, the open obligations of the suspended Clearing Member, collateral deposited by the Clearing Member, obligations to other FMUs and a summary of related entity exposure. The report summarizes the net settlement obligation of the suspended Clearing Member at the time of default. The DM Policy further provides that a recommendation as to any liquidity needs requiring a draw on OCC's credit facilities would be provided to OCC's Management Committee and subsequently be authorized, as applicable, by the Executive Chairman, CAO, or COO, as provided for in Article VIII, Section 5 of the By-Laws. These practices ensure that OCC's Management Committee remains properly informed and can make appropriate decisions in the default management process.

The DM Policy describes OCC's existing authority under OCC Rule 505 to extend the time for OCC's settlement obligations (i.e., payment obligations owed by OCC to Clearing Members). The DM Policy notes that any such determination to extend the settlement time and the reasons thereof will be promptly reported by OCC to the SEC and the CFTC, however, the effectiveness of the extension is not be conditioned upon such reporting. The DM Policy notes that such an extension may be necessary as a result of a Clearing Member default or a failure of a Clearing Member's settlement bank.

To address situations in which a Clearing Member's settlement bank fails or experiences an operational outage that prevents the Clearing Member from meeting its settlement obligations to OCC, the DM Policy provides that OCC requires each Clearing Member to maintain procedures detailing how it would meet its settlement obligations in such an event. The DM Policy further provides that a Designated Officer would determine whether to enact these alternate settlement procedures in the event that a Clearing Member's settlement bank is unable to perform.

The DM Policy sets forth the sequence or "waterfall" of financial resources that OCC may use to meet its obligations in the event of a Clearing Member suspension to provide certainty regarding the order in which these resources would be applied. Specifically, the DM Policy describes that OCC is able to use the following financial resources: (i) margin deposits of the suspended Clearing Member; (ii) deposits in lieu of margin of the suspended Clearing

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[6] OCC Rule 1103 requires OCC to notify all Clearing Members of the suspension as soon as possible.

[7] With respect to pending transactions of a suspended Clearing Member, the DM Policy provides that these will be handled pursuant to OCC Rule 1105, provided that OCC has no obligation to accept the trades effected by a suspended Clearing Member post-suspension.

Member;[8] (iii) Clearing Fund deposits of the suspended Clearing Member; (iv) Clearing Fund deposits of non-defaulting Clearing Members; (v) Clearing Fund assessments against Clearing Members; and (vi) the current or retained earnings of OCC, subject to the unanimous approval of certain OCC shareholders.[9]

In the case of a suspended Clearing Member, the DM Policy outlines the means by which OCC may determine close out positions and collateral of the suspended Clearing Member pursuant to OCC's Rules, including certain provisions under Chapter XI of the Rules. Based upon recommendations from OCC's risk staff, the EVP-FRM may take any one, or any combination, of the following actions pursuant to the terms of OCC's By-Laws and Rules: (i) net the suspended Clearing Member's positions by offset; (ii) effect market transactions to close out open short positions, long positions, and collateral; (iii) transfer the positions and related collateral to a non-suspended Clearing Member; (iv) effect hedging transactions to reduce the risk to OCC of open positions; (v) conduct a private auction of the positions and collateral of the suspended Clearing Member; (vi) exercise unsegregated and segregated long options; (vii) set cash settlement values or perform buy-in or sell-out processes; and (viii) defer close-out, as may be authorized by certain officers of OCC.[10]

In addition, the DM Policy specifies that OCC risk staff will develop a Close-out Action Plan ("CAP") and present it to the EVP-FRM for approval. The DM Policy provides that upon approval of the CAP by the EVP – FRM, FRM and other designated OCC business units and personnel will be responsible for its execution. The DM Policy also provides that OCC's legal department would advise OCC's Management Committee on OCC's authority to execute the proposed CAP and describe the responsibilities for the execution, monitoring and reporting of the CAP and escalation of issues to OCC's Management Committee. The CAP process is designed to ensure that OCC has an appropriate process in place to analyze its exposures, take into consideration current and expected market conditions, and evaluate the tools and resources available to deal with those exposures under the circumstances so that OCC can appropriately manage any default in a manner that would protect Clearing Members, investors, the public interest, and the markets that OCC serves.

The DM Policy provides that OCC would generally liquidate all positions and collateral of a suspended Clearing Member, and the proceeds would be attributed to the account type from

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[8] See Rule 610(f) and (g).

[9] See OCC By-Law Article VIII, Section 5(d). In lieu of charging a loss or deficiency proportionately to the computed Clearing Fund contributions of non-defaulting Clearing Members, OCC may charge the loss or deficiency to current or retained earnings. This same discretion applies in connection with any loss by reason of the failure of a bank or securities or commodities clearing organization to perform an obligation to OCC.

[10] The DM Policy also provides that any determination to defer close-out or hedging transactions under the CAP would be reported to the Board and/or the Risk Committee, as required under OCC Rules 1106.

which they originated. It also specifies that as a registered clearing agency with the SEC and a registered derivatives clearing organization with the CFTC, OCC is required to comply with regulatory requirements to safeguard customer assets.

In the event of a default, OCC would immediately demand any pledged collateral of the suspended Clearing Member from custodian(s) to ensure those resources are available for default management purposes. For example, the DM Policy provides that, among other things, cash and proceeds from any liquidated collateral or demand of payment on a letter of credit would be placed in the appropriate liquidating settlement account, pursuant to OCC Rule 1104. The DM Policy further provides that all pledged valued margin collateral will be moved by the Collateral Services Department into an OCC account and may be transferred to an auction recipient, delivered to a liquidating agent or delivered to a liquidating settlement account. In the case of deposits in lieu of margin, however, the DM Policy states that OCC would only demand such collateral to meet obligations arising from the assignment of a related contract.

After the close-out of the suspended Clearing Member is completed, the DM Policy describes that the Executive Chairman, CAO, or COO would determine whether, consistent with Article VIII, Section 5(a) of OCC's By-Laws, an assessment must be made against the Clearing Fund in connection with the liquidation. In the event of a shortfall whereby the close-out of the suspended Clearing Member does not result in enough resources to cover its obligations, the DM Policy states that each Clearing Member, consistent with Article VIII, Section 6 of OCC's By-Laws, may be assessed an additional amount equal to the amount of its initial Clearing Fund deposit, as determined by the Executive Chairman, CAO, or COO. The DM Policy notes that any such assessment decision would be communicated via e-mail in accordance with the procedure covering the assessment process. The DM Policy also specifies that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in Article VIII, Sections 6 and 7 of OCC's By-Laws.

The DM Policy provides that, on at least an annual basis, OCC's default management working group will provide OCC's Management Committee with recommended areas for testing, including close-out procedures, and that the Management Committee is responsible for reviewing and ultimately approving the overall test plan.[11] In addition, the DM Policy specifies that the default management working group maintains the authority to approve individual test plans and overall plan changes, but that any changes to the overall plan would be reported to and reviewed by OCC's Management Committee. The DM Policy further provides that testing is recommended and performed more frequently than annually if a material change is made to OCC's default management procedures or if it is deemed necessary by OCC's default management working group.

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[11] The DM Policy also provides that Clearing Members are required to participate in default management testing pursuant to OCC Rules 218(c) and (d). See Securities Exchange Act Release No. 80372 (April 4, 2017), 82 FR 17311 (April 10, 2017) (SR-OCC-2017-003).

In addition, the DM Policy outlines the execution of the testing plan and the review of the results of the testing plan, including the production of annual reports to OCC's Management Committee and Risk Committee regarding the results of OCC's default tests to provide appropriate oversight over the default testing process.

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 Principle as potentially being impacted:

Default rules and procedures. DCO Core Principle G generally requires a DCO to have rules and procedures designed to allow for the efficient, fair, and safe management of events during which members or participants become insolvent or otherwise default. CFTC Regulation 39.16 sets forth the requirements that a DCO would have to meet to comply with Core Principle G, including default procedures and actions in the event of a clearing member insolvency. Paragraph (a) of the regulation requires a DCO to adopt rules and procedures designed to allow for the efficient, fair, and safe management of events during which clearing members become insolvent or default on the obligations of such clearing members to the DCO. Paragraph (b) of the regulation generally requires a DCO to maintain a current written default management plan. Paragraph (c) of the regulation generally requires a DCO to adopt procedures that would permit the DCO to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a default on the obligations of a clearing member to the derivatives clearing organization. Paragraph (d) of the regulation sets forth general requirements regarding the insolvency of a clearing member, including notification requirements.

Consistent with CFTC Regulation 39.16, the DM Policy focuses on the processes that OCC would use to take timely action to contain losses and liquidity demands in an event of default by a Clearing Member, such as closing out open positions and collateral of a defaulted Clearing Member, using alternate settlement bank procedures or relying on Clearing Fund contributions of Clearing Members under certain conditions. In this regard, the DM Policy is designed to ensure that OCC can maintain its resilience in the event of a default, thereby enabling OCC to continue to provide its clearance and settlement services to the public in such circumstances.

The DM Policy, among other things, sets forth OCC's authority and operational capabilities to take timely action to contain losses and liquidity demands and continue to meet its obligations. For example, the DM Policy sets forth the procedures by which OCC would suspend a Clearing Member as well as the waterfall of financial resources that OCC would use to contain losses arising from the Clearing Member's default. The DM Policy also sets forth, among other things, the various means by which OCC may close-out the positions of a suspended Clearing Member and the process it uses to make such determinations, which OCC believes helps ensure that OCC has sufficient operational capacity take timely action to contain losses and liquidity demands and continue to meet its obligations consistent with CFTC Regulation 39.16.

OCC also believes that the DM Policy is consistent with CFTC Regulation 39.16 because the DM Policy describes the process by which OCC may initiate a Clearing Fund assessment to replenish financial resources that may be used following a default and attendant suspension of a Clearing Member. Specifically, the DM Policy provides that where the liquidation of a suspended Clearing Member results in a shortfall, certain officers of OCC may require that all Clearing Members be assessed an additional amount equal to the amount of their respective Clearing Fund deposits, consistent with OCC's By-Laws, and that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in OCC's By-Laws. In addition, the DM Policy also provides that, pursuant to the waterfall of financial resources used in the event of a Clearing Member suspension, OCC could use current or retained earnings, consistent with OCC's By-Laws, to continue meeting its financial obligations.

For the reasons set forth above, OCC believes the proposed changes generally promote compliance and consistency with the DCO Core Principles, and in particular, promote compliance and consistency with DCO Core Principle G and CFTC Regulation 39.16.

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 - 2017 - * 010
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 concerning OCC's Default Management 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 10/12/2017
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**

This proposed rule change by The Options Clearing Corporation ("OCC") would formalize and update OCC's Default Management Policy, which would promote compliance with multiple requirements applicable to OCC under Rule 17Ad-22, including Rules 17Ad-22(e)(4)(ix) (Replenishment of Resources) and (e)(13) (Default Management).[1] The Default Management Policy is included as confidential Exhibit 5. The policy is being submitted without marking to improve readability as it is being submitted in its entirety as new rule text.

The proposed rule change does not require any changes to the text of OCC's By-Laws or Rules. All terms with initial capitalization that are not otherwise 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 rule change was approved for filing with the Commission by OCC's Board of Directors at a meeting held on February 24, 2017.

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

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

A. Purpose

Background

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[1] 17 CFR 240.17Ad-22(e)(4)(ix) and (e)(13).

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

On September 28, 2016, the Commission adopted amendments to Rule 17Ad-22[3] and added new Rule 17Ab2-2[4] pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, ("Act")[5] and the Payment, Clearing, and Settlement Supervision Act of 2010 ("Payment, Clearing and Settlement Supervision Act")[6] to establish enhanced standards for the operation and governance of those clearing agencies registered with the Commission that meet the definition of a "covered clearing agency," as defined by Rule 17Ad-22(a)(5)[7] (collectively, the new and amended rules are herein referred to as the "CCA" rules). OCC meets the definition of a covered clearing agency and is therefore subject to the requirements of the CCA rules.[8]

Relevance of OCC's Default Management Policy to Rules 17Ad-22(e)(4)(ix) and (e)(13)

Certain of the CCA rules relate to matters that, as described below, are addressed by OCC's Default Management Policy ("DM Policy"). Specifically, Rules 17Ad-22(e)(4)(ix) and (e)(13) respectively require OCC to, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to: (i) effectively identify, measure, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes, including by "describing [OCC's] process to replenish any financial resources it may use following a default or other event in which use of such resources is

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3 Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) ("CCA Adopting Release"); see also 17 CFR 240.17Ad-22.

4 17 CFR 240.17Ab2-2.

5 15 U.S.C. 78q-1.

6 12 U.S.C. 5461 et. seq.

7 17 CFR 240.17Ad-22(a)(5).

8 Id.

contemplated"[9] and (ii) ensure that OCC "has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring [OCC's] participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedure, at least annually and following material changes thereto."[10] OCC believes that the DM Policy promotes compliance with these requirements under Rules 17Ad-22(e)(4)(ix) and (e)(13), and an overview of the DM Policy is provided below.

Default Management Policy

OCC proposes to formalize its DM Policy, which would apply in the event of a default by a Clearing Member, settlement bank or a financial market utility with which OCC has a relationship ("FMU").[11] The purpose of the policy is to outline OCC's default management framework and describe the default management steps that OCC has authority to take depending upon the facts and circumstances of a default. The DM Policy focuses on Clearing Member default, which OCC believes is appropriate because Clearing Member default represents a substantial part of the overall default risk that is posed to OCC in connection with its central

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[9] 17 CFR 240.17Ad-22(e)(4)(ix).

[10] 17 CFR 240.17Ad-22(e)(13).

[11] Examples of such FMUs contemplated by the DM Policy are the following securities or commodities clearing organizations: The Depository Trust Company, National Securities Clearing Corporation, and the Chicago Mercantile Exchange. In an event of default by one of these securities or commodities clearing organizations, or by a settlement bank, OCC has authority under certain conditions pursuant to Article VIII, Section 1.(a)(vii) and 5.(b) of the By-Laws to manage the default using Clearing Member contributions to the Clearing Fund.

counterparty clearing services.[12]

OCC notes that the DM Policy is part of a broader framework used by OCC to manage the default of a Clearing Member, settlement bank or FMU, including OCC's By-Laws, Rules, and other policies and procedures. The broader framework is designed to collectively ensure that OCC would appropriately manage any such default consistent with OCC's obligations as a covered clearing agency, including under Rule 17Ad-22.[13]

The DM Policy describes the authority of OCC's Board of Directors ("Board") or a Designated Officer[14] to summarily suspend a Clearing Member pursuant to OCC Rule 1102(a) in the event the Clearing Member defaults. The DM Policy further provides that, pursuant to OCC Rule 707, OCC may suspend a Clearing Member that participates in a cross-margining program in the event of a default regarding its cross-margining accounts. Upon any suspension of a Clearing Member, the DM Policy states that OCC would immediately notify a number of parties, including the suspended Clearing Member, regulatory authorities, participant and other

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[12] For purposes of the DM Policy, references to a Clearing Member suspension or default contemplate the circumstances specified in OCC Rule 1102, which constitute events of "default" under Interpretation and Policy .01 to the Rule.

[13] In this regard, the DM Policy provides that OCC publishes key aspects of its default management Rules and procedures on its website. The summary is available at https://www.theocc.com/risk-management/default-rules/.

[14] For this purpose, the term Designated Officer includes the Executive Chairman, Chief Administrative Officer ("CAO"), Chief Operating Officer ("COO"), Chief Risk Officer ("CRO") and Executive Vice President – Financial Risk Management ("EVP-FRM").

exchanges (as applicable) in which the suspended Clearing Member is a common member, other Clearing Members,[15] and OCC's Board.[16]

In the event of a Clearing Member suspension, the DM Policy provides that OCC's Financial Risk Management department ("FRM") shall prepare an exposure summary report to be provided to OCC's Management Committee detailing, among other things, the open obligations of the suspended Clearing Member, collateral deposited by the Clearing Member, obligations to other FMUs and a summary of related entity exposure. The report summarizes the net settlement obligation of the suspended Clearing Member at the time of default. The DM Policy further provides that a recommendation as to any liquidity needs requiring a draw on OCC's credit facilities would be provided to OCC's Management Committee and subsequently be authorized, as applicable, by the Executive Chairman, CAO, or COO, as provided for in Article VIII, Section 5 of the By-Laws. These practices ensure that OCC's Management Committee remains properly informed and can make appropriate decisions in the default management process.

The DM Policy describes OCC's existing authority under OCC Rule 505 to extend the time for OCC's settlement obligations (i.e., payment obligations owed by OCC to Clearing Members). The DM Policy notes that any such determination to extend the settlement time and the reasons thereof will be promptly reported by OCC to the Commission and the Commodity

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[15] OCC Rule 1103 requires OCC to notify all Clearing Members of the suspension as soon as possible.

[16] With respect to pending transactions of a suspended Clearing Member, the DM Policy provides that these will be handled pursuant to OCC Rule 1105, provided that OCC has no obligation to accept the trades effected by a suspended Clearing Member post-suspension.

Futures Trading Commission ("CFTC"), however, the effectiveness of the extension is not be conditioned upon such reporting. The DM Policy notes that such an extension may be necessary as a result of a Clearing Member default or a failure of a Clearing Member's settlement bank.

To address situations in which a Clearing Member's settlement bank fails or experiences an operational outage that prevents the Clearing Member from meeting its settlement obligations to OCC, the DM Policy provides that OCC requires each Clearing Member to maintain procedures detailing how it would meet its settlement obligations in such an event. The DM Policy further provides that a Designated Officer would determine whether to enact these alternate settlement procedures in the event that a Clearing Member's settlement bank is unable to perform.

The DM Policy sets forth the sequence or "waterfall" of financial resources that OCC may use to meet its obligations in the event of a Clearing Member suspension to provide certainty regarding the order in which these resources would be applied. Specifically, the DM Policy describes that OCC is able to use the following financial resources: (i) margin deposits of the suspended Clearing Member; (ii) deposits in lieu of margin of the suspended Clearing Member;[17] (iii) Clearing Fund deposits of the suspended Clearing Member; (iv) Clearing Fund deposits of non-defaulting Clearing Members; (v) Clearing Fund assessments against Clearing Members; and (vi) the current or retained earnings of OCC, subject to the unanimous approval of certain OCC shareholders.[18]

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[17] See Rule 610(f) and (g).

[18] See OCC By-Law Article VIII, Section 5(d). In lieu of charging a loss or deficiency proportionately to the computed Clearing Fund contributions of non-defaulting Clearing Members, OCC may charge the loss or deficiency to current or retained earnings. This same

In the case of suspended Clearing Member, the DM Policy outlines the means by which OCC may determine close out positions and collateral of the suspended Clearing Member pursuant to OCC's Rules, including certain provisions under Chapter XI of the Rules. Based upon recommendations from OCC's risk staff, the EVP-FRM may take any one, or any combination, of the following actions pursuant to the terms of OCC's By-Laws and Rules: (i) net the suspended Clearing Member's positions by offset; (ii) effect market transactions to close out open short positions, long positions, and collateral; (iii) transfer the positions and related collateral to a non-suspended Clearing Member; (iv) effect hedging transactions to reduce the risk to OCC of open positions; (v) conduct a private auction of the positions and collateral of the suspended Clearing Member; (vi) exercise unsegregated and segregated long options; (vii) set cash settlement values or perform buy-in or sell-out processes; and (viii) defer close-out, as may be authorized by certain officers of OCC.[19]

In addition, the DM Policy specifies that OCC risk staff will develop a Close-out Action Plan ("CAP") and present it to the EVP-FRM for approval. The DM Policy provides that upon approval of the CAP by the EVP – FRM, FRM and other designated business OCC business units and personnel will be responsible for its execution. The DM Policy also provides that OCC's legal department would advise OCC's Management Committee on OCC's authority to execute the proposed CAP and describe the responsibilities for the execution, monitoring and

discretion applies in connection with any loss by reason of the failure of a bank or securities or commodities clearing organization to perform an obligation to OCC.

[19] The DM Policy also provides that any determination to defer close-out or hedging transactions under the CAP would be reported to the Board and/or the Risk Committee, as required under OCC Rules 1106.

reporting of the CAP and escalation of issues to OCC's Management Committee. The CAP process is designed to ensure that OCC has an appropriate process in place to analyze its exposures, take into consideration current and expected market conditions, and evaluate the tools and resources available to deal with those exposures under the circumstances so that OCC can appropriately manage any default in a manner that would protect Clearing Members, investors, the public interest, and the markets that OCC serves.

The DM Policy provides that OCC would generally liquidate all positions and collateral of a suspended Clearing Member, and the proceeds would be attributed to the account type from which they originated. It also specifies that as a registered clearing agency with the Commission and a registered derivatives clearing organization with the CFTC, OCC is required to comply with regulatory requirements to safeguard customer assets.

In the event of a default, OCC would immediately demand any pledged collateral of the suspended Clearing Member from custodian(s) to ensure those resources are available for default management purposes. For example, the DM Policy provides that, among other things, cash and proceeds from any liquidated collateral or demand of payment on a letter of credit would be placed in the appropriate liquidating settlement account, pursuant to OCC Rule 1104. The DM Policy further provides that all pledged valued margin collateral will be moved by the Collateral Services Department into an OCC account and may be transferred to an auction recipient, delivered to a liquidating agent or delivered to a liquidating settlement account. In the case of deposits in lieu of margin, however, the DM Policy states that OCC would only demand such collateral to meet obligations arising from the assignment of a related contract.

After the close-out of the suspended Clearing Member is completed, the DM Policy

describes that the Executive Chairman, CAO, or COO would determine whether, consistent with Article VIII, Section 5(a) of OCC's By-Laws, an assessment must be made against the Clearing Fund in connection with the liquidation. In the event of a shortfall whereby the close-out of the suspended Clearing Member does not result in enough resources to cover its obligations, the DM Policy states that each Clearing Member, consistent with Article VIII, Section 6 of OCC's By-Laws, may be assessed an additional amount equal to the amount of its initial Clearing Fund deposit, as determined by the Executive Chairman, CAO, or COO. The DM Policy notes that any such assessment decision would be communicated via e-mail in accordance with the procedure covering the assessment process. The DM Policy also specifies that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in Article VIII, Sections 6 and 7 of OCC's By-Laws.

The DM Policy provides that, on at least an annual basis, OCC's default management working group will provide OCC's Management Committee with recommended areas for testing, including close-out procedures, and that the Management Committee is responsible for reviewing and ultimately approving the overall test plan.[20] In addition, the DM Policy specifies that the default management working group maintains the authority to approve individual test plans and overall plan changes, but that any changes to the overall plan would be reported to and reviewed by OCC's Management Committee. The DM Policy further provides that testing is

[20] The DM Policy also provides that Clearing Members are required to participate in default management testing pursuant to OCC Rules 218(c) and (d). See Securities Exchange Act Release No. 80372 (April 4, 2017), 82 FR 17311 (April 10, 2017) (SR-OCC-2017-003).

recommended and performed more frequently than annually if a material change is made to OCC's default management procedures or if it is deemed necessary by OCC's default management working group. These provisions are designed to ensure that OCC maintains policies and procedures reasonably designed to satisfy the requirements of Rule 17Ad-22(e)(13)[21] relating to the testing and review of its default procedures.

In addition, the DM Policy outlines the execution of the testing plan and the review of the results of the testing plan, including the production of annual reports to OCC's Management Committee and Risk Committee regarding the results of OCC's default tests to provide appropriate oversight over the default testing process.

B. Statutory Basis

Section 17A(b)(3)(F) of the Act[22] requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and, in general, protect investors and the public interest. The DM Policy focuses on the processes that OCC would use to take timely action to contain losses and liquidity demands in an event of default by a Clearing Member, such as closing out open positions and collateral of a defaulted Clearing Member, using alternate settlement bank procedures or relying on Clearing Fund contributions of Clearing Members under certain conditions. In this regard, the DM Policy is designed to ensure that OCC can maintain its resilience in the event of a default, thereby enabling OCC to continue to provide its clearance and settlement services to the public in such circumstances. Accordingly, OCC believes that the DM Policy is designed to (i)

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[21] 17 CFR 240.17Ad-22(e)(13).

[22] 15 U.S.C. 78q-1(b)(3)(F).

protect investors and the public interest, and (ii) promote the prompt and accurate clearance and settlement of securities transactions in a manner consistent with Section 17A(b)(3)(F) of the Act.[23]

Rules 17Ad-22(e)(4)(ix) and (e)(13) respectively require a covered clearing agency to, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to: (i) effectively identify, measure, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes, including by describing its process to replenish any financial resources it may use following a default or other event in which use of such resources is contemplated[24] and (ii) ensure that it has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring its participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedure, at least annually and following material changes thereto.[25] OCC believes that the proposed rule change is consistent with Rule 17Ad-22(e)(13)[26] because the DM Policy, among other things, sets forth OCC's authority and operational capabilities to take timely action to contain losses and liquidity demands and continue to meet its obligations. For example, the DM Policy sets forth the procedures by which OCC would suspend a Clearing Member as well as the waterfall of financial resources that OCC would use to contain losses

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[23] Id.
[24] 17 CFR 240.17Ad-22(e)(4)(ix).
[25] 17 CFR 240.17Ad-22(e)(13).
[26] 17 CFR 240.17Ad-22(e)(13).

arising from the Clearing Member's default. The DM Policy also sets forth, among other things, the various means by which OCC may close-out the positions of a suspended Clearing Member and the process it uses to make such determinations, which OCC believes helps ensure that OCC has sufficient operational capacity take timely action to contain losses and liquidity demands and continue to meet its obligations consistent with Rule 17Ad-22(e)(13).[27] In addition, OCC believes that the DM Policy is consistent with the testing requirement in Rule 17Ad-22(e)(13)[28] because the DM Policy sets forth OCC's processes for managing annual testing, or more frequent testing following a change to OCC's default management procedures.

OCC also believes that the DM Policy is consistent with Rule 17Ad-22(e)(4)(ix)[29] because the DM Policy describes the process by which OCC may initiate a Clearing Fund assessment to replenish financial resources that may be used following a default and attendant suspension of a Clearing Member. Specifically, the DM Policy provides that where the liquidation of a suspended Clearing Member results in a shortfall, certain officers of OCC may require that all Clearing Members be assessed an additional amount equal to the amount of their respective Clearing Fund deposits, consistent with OCC's By-Laws, and that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in OCC's By-Laws.. In addition, the DM Policy also provides that, pursuant to the waterfall of financial resources used in the event of a Clearing Member suspension, OCC could use current or retained earnings, consistent with

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27 Id.

28 Id.

29 17 CFR 240.17Ad-22(e)(4)(ix).

OCC's By-Laws, to continue meeting its financial obligations.

The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

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

Section 17A(b)(3)(I) of the Act[30] 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 impact or impose any burden on competition. As a general matter, the DM Policy describes the processes OCC would follow in a default that are already set forth in OCC's approved By-Laws and Rules. More specifically, the proposed rule change sets forth in a single document the framework OCC would use to manage the default primarily of a Clearing Member, as well as the default of a settlement bank or FMU. Because any individual Clearing Member, settlement bank, or FMU under the DM Policy is equally subject to the aspects of OCC's default management framework that apply to it, the proposed rule change would not provide any such entity with a competitive advantage over any other similar entity. OCC notes that, in managing any potential default, OCC focuses on the risk posed to OCC by such default. Accordingly, to the extent, for example, that OCC were to close-out the open positions of one suspended Clearing Member in a different manner than it were to close-out the open positions of another Clearing Member, such differences result from the risks posed to OCC by each Clearing Member's respective positions. Moreover, the treatment of customer versus proprietary positions in a default scenario are not specifically addressed in the

[30] 15 U.S.C. 78q-1(b)(3)(I).

DM Policy, which as noted sets forth a general framework for managing defaults, but rather in OCC's existing By-Laws and Rules. Further, the proposed rule change would not affect Clearing Members' access to OCC's services or impose any direct burdens on Clearing Members.

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 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.

Item 6. Extension of Time Period for Commission Action

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

Item 11. **Exhibits**

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

Exhibit 5 Default Management Policy.

CONFIDENTIAL TREATMENT IS REQUESTED FOR EXHIBIT 5

PURSUANT TO SEC RULE 24b-2

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:_____________________________________
Justin W. Byrne
Vice President, Regulatory Filings

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_______________]; File No. SR-OCC-2017-010)

October 12, 2017

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Related to The Options Clearing Corporation's Default Management 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 October 12, 2017, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

This proposed rule change by The Options Clearing Corporation ("OCC") would formalize and update OCC's Default Management Policy, which would promote compliance with multiple requirements applicable to OCC under Rule 17Ad-22, including Rules 17Ad-22(e)(4)(ix) (Replenishment of Resources) and (e)(13) (Default Management).[3] The Default Management Policy is included as confidential Exhibit 5.

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

[2] 17 CFR 240.19b-4.

[3] 17 CFR 240.17Ad-22(e)(4)(ix) and (e)(13).

The proposed rule change does not require any changes to the text of OCC's By-Laws or Rules. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the OCC By-Laws and Rules.[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

Background

On September 28, 2016, the Commission adopted amendments to Rule 17Ad-22[5] and added new Rule 17Ab2-2[6] pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, ("Act")[7] and the Payment, Clearing, and Settlement Supervision Act of 2010 ("Payment, Clearing and Settlement Supervision Act")[8] to establish enhanced standards for the operation and governance of those clearing agencies registered with the

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

5 Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) ("CCA Adopting Release"); see also 17 CFR 240.17Ad-22.

6 17 CFR 240.17Ab2-2.

7 15 U.S.C. 78q-1.

8 12 U.S.C. 5461 et. seq.

Commission that meet the definition of a "covered clearing agency," as defined by Rule 17Ad-22(a)(5)[9] (collectively, the new and amended rules are herein referred to as the "CCA" rules). OCC meets the definition of a covered clearing agency and is therefore subject to the requirements of the CCA rules.[10]

Relevance of OCC's Default Management Policy to Rules 17Ad-22(e)(4)(ix) and (e)(13)

Certain of the CCA rules relate to matters that, as described below, are addressed by OCC's Default Management Policy ("DM Policy"). Specifically, Rules 17Ad-22(e)(4)(ix) and (e)(13) respectively require OCC to, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to: (i) effectively identify, measure, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes, including by "describing [OCC's] process to replenish any financial resources it may use following a default or other event in which use of such resources is contemplated"[11] and (ii) ensure that OCC "has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring [OCC's] participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedure, at least annually and following material changes thereto."[12] OCC believes that the DM Policy

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[9] 17 CFR 240.17Ad-22(a)(5).

[10] Id.

[11] 17 CFR 240.17Ad-22(e)(4)(ix).

[12] 17 CFR 240.17Ad-22(e)(13).

promotes compliance with these requirements under Rules 17Ad-22(e)(4)(ix) and (e)(13), and an overview of the DM Policy is provided below.

Default Management Policy

OCC proposes to formalize its DM Policy, which would apply in the event of a default by a Clearing Member, settlement bank or a financial market utility with which OCC has a relationship ("FMU").[13] The purpose of the policy is to outline OCC's default management framework and describe the default management steps that OCC has authority to take depending upon the facts and circumstances of a default. The DM Policy focuses on Clearing Member default, which OCC believes is appropriate because Clearing Member default represents a substantial part of the overall default risk that is posed to OCC in connection with its central counterparty clearing services.[14]

OCC notes that the DM Policy is part of a broader framework used by OCC to manage the default of a Clearing Member, settlement bank or FMU, including OCC's By-Laws, Rules, and other policies and procedures. The broader framework is designed

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[13] Examples of such FMUs contemplated by the DM Policy are the following securities or commodities clearing organizations: The Depository Trust Company, National Securities Clearing Corporation, and the Chicago Mercantile Exchange. In an event of default by one of these securities or commodities clearing organizations, or by a settlement bank, OCC has authority under certain conditions pursuant to Article VIII, Section 1.(a)(vii) and 5.(b) of the By-Laws to manage the default using Clearing Member contributions to the Clearing Fund.

[14] For purposes of the DM Policy, references to a Clearing Member suspension or default contemplate the circumstances specified in OCC Rule 1102, which constitute events of "default" under Interpretation and Policy .01 to the Rule.

to collectively ensure that OCC would appropriately manage any such default consistent with OCC's obligations as a covered clearing agency, including under Rule 17Ad-22.[15]

The DM Policy describes the authority of OCC's Board of Directors ("Board") or a Designated Officer[16] to summarily suspend a Clearing Member pursuant to OCC Rule 1102(a) in the event the Clearing Member defaults. The DM Policy further provides that, pursuant to OCC Rule 707, OCC may suspend a Clearing Member that participates in a cross-margining program in the event of a default regarding its cross-margining accounts. Upon any suspension of a Clearing Member, the DM Policy states that OCC would immediately notify a number of parties, including the suspended Clearing Member, regulatory authorities, participant and other exchanges (as applicable) in which the suspended Clearing Member is a common member, other Clearing Members,[17] and OCC's Board.[18]

In the event of a Clearing Member suspension, the DM Policy provides that OCC's Financial Risk Management department ("FRM") shall prepare an exposure summary report to be provided to OCC's Management Committee detailing, among other

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[15] In this regard, the DM Policy provides that OCC publishes key aspects of its default management Rules and procedures on its website. The summary is available at https://www.theocc.com/risk-management/default-rules/.

[16] For this purpose, the term Designated Officer includes the Executive Chairman, Chief Administrative Officer ("CAO"), Chief Operating Officer ("COO"), Chief Risk Officer ("CRO") and Executive Vice President – Financial Risk Management ("EVP-FRM").

[17] OCC Rule 1103 requires OCC to notify all Clearing Members of the suspension as soon as possible.

[18] With respect to pending transactions of a suspended Clearing Member, the DM Policy provides that these will be handled pursuant to OCC Rule 1105, provided that OCC has no obligation to accept the trades effected by a suspended Clearing Member post-suspension.

things, the open obligations of the suspended Clearing Member, collateral deposited by the Clearing Member, obligations to other FMUs and a summary of related entity exposure. The report summarizes the net settlement obligation of the suspended Clearing Member at the time of default. The DM Policy further provides that a recommendation as to any liquidity needs requiring a draw on OCC's credit facilities would be provided to OCC's Management Committee and subsequently be authorized, as applicable, by the Executive Chairman, CAO, or COO, as provided for in Article VIII, Section 5 of the By-Laws. These practices ensure that OCC's Management Committee remains properly informed and can make appropriate decisions in the default management process.

The DM Policy describes OCC's existing authority under OCC Rule 505 to extend the time for OCC's settlement obligations (i.e., payment obligations owed by OCC to Clearing Members). The DM Policy notes that any such determination to extend the settlement time and the reasons thereof will be promptly reported by OCC to the Commission and the Commodity Futures Trading Commission ("CFTC"), however, the effectiveness of the extension is not be conditioned upon such reporting. The DM Policy notes that such an extension may be necessary as a result of a Clearing Member default or a failure of a Clearing Member's settlement bank.

To address situations in which a Clearing Member's settlement bank fails or experiences an operational outage that prevents the Clearing Member from meeting its settlement obligations to OCC, the DM Policy provides that OCC requires each Clearing Member to maintain procedures detailing how it would meet its settlement obligations in such an event. The DM Policy further provides that a Designated Officer would

determine whether to enact these alternate settlement procedures in the event that a Clearing Member's settlement bank is unable to perform.

The DM Policy sets forth the sequence or "waterfall" of financial resources that OCC may use to meet its obligations in the event of a Clearing Member suspension to provide certainty regarding the order in which these resources would be applied. Specifically, the DM Policy describes that OCC is able to use the following financial resources: (i) margin deposits of the suspended Clearing Member; (ii) deposits in lieu of margin of the suspended Clearing Member;[19] (iii) Clearing Fund deposits of the suspended Clearing Member; (iv) Clearing Fund deposits of non-defaulting Clearing Members; (v) Clearing Fund assessments against Clearing Members; and (vi) the current or retained earnings of OCC, subject to the unanimous approval of certain OCC shareholders.[20]

In the case of suspended Clearing Member, the DM Policy outlines the means by which OCC may determine close out positions and collateral of the suspended Clearing Member pursuant to OCC's Rules, including certain provisions under Chapter XI of the Rules. Based upon recommendations from OCC's risk staff, the EVP-FRM may take any one, or any combination, of the following actions pursuant to the terms of OCC's By-Laws and Rules: (i) net the suspended Clearing Member's positions by offset; (ii) effect

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[19] See Rule 610(f) and (g).

[20] See OCC By-Law Article VIII, Section 5(d). In lieu of charging a loss or deficiency proportionately to the computed Clearing Fund contributions of non-defaulting Clearing Members, OCC may charge the loss or deficiency to current or retained earnings. This same discretion applies in connection with any loss by reason of the failure of a bank or securities or commodities clearing organization to perform an obligation to OCC.

market transactions to close out open short positions, long positions, and collateral; (iii) transfer the positions and related collateral to a non-suspended Clearing Member; (iv) effect hedging transactions to reduce the risk to OCC of open positions; (v) conduct a private auction of the positions and collateral of the suspended Clearing Member; (vi) exercise unsegregated and segregated long options; (vii) set cash settlement values or perform buy-in or sell-out processes; and (viii) defer close-out, as may be authorized by certain officers of OCC.[21]

In addition, the DM Policy specifies that OCC risk staff will develop a Close-out Action Plan ("CAP") and present it to the EVP-FRM for approval. The DM Policy provides that upon approval of the CAP by the EVP – FRM, FRM and other designated business OCC business units and personnel will be responsible for its execution. The DM Policy also provides that OCC's legal department would advise OCC's Management Committee on OCC's authority to execute the proposed CAP and describe the responsibilities for the execution, monitoring and reporting of the CAP and escalation of issues to OCC's Management Committee. The CAP process is designed to ensure that OCC has an appropriate process in place to analyze its exposures, take into consideration current and expected market conditions, and evaluate the tools and resources available to deal with those exposures under the circumstances so that OCC can appropriately manage any default in a manner that would protect Clearing Members, investors, the public interest, and the markets that OCC serves.

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[21] The DM Policy also provides that any determination to defer close-out or hedging transactions under the CAP would be reported to the Board and/or the Risk Committee, as required under OCC Rules 1106.

The DM Policy provides that OCC would generally liquidate all positions and collateral of a suspended Clearing Member, and the proceeds would be attributed to the account type from which they originated. It also specifies that as a registered clearing agency with the Commission and a registered derivatives clearing organization with the CFTC, OCC is required to comply with regulatory requirements to safeguard customer assets.

In the event of a default, OCC would immediately demand any pledged collateral of the suspended Clearing Member from custodian(s) to ensure those resources are available for default management purposes. For example, the DM Policy provides that, among other things, cash and proceeds from any liquidated collateral or demand of payment on a letter of credit would be placed in the appropriate liquidating settlement account, pursuant to OCC Rule 1104. The DM Policy further provides that all pledged valued margin collateral will be moved by the Collateral Services Department into an OCC account and may be transferred to an auction recipient, delivered to a liquidating agent or delivered to a liquidating settlement account. In the case of deposits in lieu of margin, however, the DM Policy states that OCC would only demand such collateral to meet obligations arising from the assignment of a related contract.

After the close-out of the suspended Clearing Member is completed, the DM Policy describes that the Executive Chairman, CAO, or COO would determine whether, consistent with Article VIII, Section 5(a) of OCC's By-Laws, an assessment must be made against the Clearing Fund in connection with the liquidation. In the event of a shortfall whereby the close-out of the suspended Clearing Member does not result in enough resources to cover its obligations, the DM Policy states that each Clearing

Member, consistent with Article VIII, Section 6 of OCC's By-Laws, may be assessed an additional amount equal to the amount of its initial Clearing Fund deposit, as determined by the Executive Chairman, CAO, or COO. The DM Policy notes that any such assessment decision would be communicated via e-mail in accordance with the procedure covering the assessment process. The DM Policy also specifies that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in Article VIII, Sections 6 and 7 of OCC's By-Laws.

The DM Policy provides that, on at least an annual basis, OCC's default management working group will provide OCC's Management Committee with recommended areas for testing, including close-out procedures, and that the Management Committee is responsible for reviewing and ultimately approving the overall test plan.[22] In addition, the DM Policy specifies that the default management working group maintains the authority to approve individual test plans and overall plan changes, but that any changes to the overall plan would be reported to and reviewed by OCC's Management Committee. The DM Policy further provides that testing is recommended and performed more frequently than annually if a material change is made to OCC's default management procedures or if it is deemed necessary by OCC's default management working group. These provisions are designed to ensure that OCC

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[22] The DM Policy also provides that Clearing Members are required to participate in default management testing pursuant to OCC Rules 218(c) and (d). See Securities Exchange Act Release No. 80372 (April 4, 2017), 82 FR 17311 (April 10, 2017) (SR-OCC-2017-003).

maintains policies and procedures reasonably designed to satisfy the requirements of Rule 17Ad-22(e)(13)[23] relating to the testing and review of its default procedures.

In addition, the DM Policy outlines the execution of the testing plan and the review of the results of the testing plan, including the production of annual reports to OCC's Management Committee and Risk Committee regarding the results of OCC's default tests to provide appropriate oversight over the default testing process.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act[24] requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and, in general, protect investors and the public interest. The DM Policy focuses on the processes that OCC would use to take timely action to contain losses and liquidity demands in an event of default by a Clearing Member, such as closing out open positions and collateral of a defaulted Clearing Member, using alternate settlement bank procedures or relying on Clearing Fund contributions of Clearing Members under certain conditions. In this regard, the DM Policy is designed to ensure that OCC can maintain its resilience in the event of a default, thereby enabling OCC to continue to provide its clearance and settlement services to the public in such circumstances. Accordingly, OCC believes that the DM Policy is designed to (i) protect investors and the public interest, and (ii) promote the prompt and accurate clearance and

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[23] 17 CFR 240.17Ad-22(e)(13).

[24] 15 U.S.C. 78q-1(b)(3)(F).

settlement of securities transactions in a manner consistent with Section 17A(b)(3)(F) of the Act.[25]

Rules 17Ad-22(e)(4)(ix) and (e)(13) respectively require a covered clearing agency to, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to: (i) effectively identify, measure, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes, including by describing its process to replenish any financial resources it may use following a default or other event in which use of such resources is contemplated[26] and (ii) ensure that it has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring its participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedure, at least annually and following material changes thereto.[27] OCC believes that the proposed rule change is consistent with Rule 17Ad-22(e)(13)[28] because the DM Policy, among other things, sets forth OCC's authority and operational capabilities to take timely action to contain losses and liquidity demands and continue to meet its obligations. For example, the DM Policy sets forth the procedures by which OCC would suspend a Clearing Member as well as the waterfall of financial resources that OCC would use to contain losses arising from the Clearing Member's default. The DM Policy

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[25] Id.

[26] 17 CFR 240.17Ad-22(e)(4)(ix).

[27] 17 CFR 240.17Ad-22(e)(13).

[28] Id.

also sets forth, among other things, the various means by which OCC may close-out the positions of a suspended Clearing Member and the process it uses to make such determinations, which OCC believes helps ensure that OCC has sufficient operational capacity take timely action to contain losses and liquidity demands and continue to meet its obligations consistent with Rule 17Ad-22(e)(13).[29] In addition, OCC believes that the DM Policy is consistent with the testing requirement in Rule 17Ad-22(e)(13)[30] because the DM Policy sets forth OCC's processes for managing annual testing, or more frequent testing following a change to OCC's default management procedures.

OCC also believes that the DM Policy is consistent with Rule 17Ad-22(e)(4)(ix)[31] because the DM Policy describes the process by which OCC may initiate a Clearing Fund assessment to replenish financial resources that may be used following a default and attendant suspension of a Clearing Member. Specifically, the DM Policy provides that where the liquidation of a suspended Clearing Member results in a shortfall, certain officers of OCC may require that all Clearing Members be assessed an additional amount equal to the amount of their respective Clearing Fund deposits, consistent with OCC's By-Laws, and that a Clearing Member is liable for further assessments until the balance of OCC's losses are covered or the Clearing Member has withdrawn from membership as set forth in OCC's By-Laws.. In addition, the DM Policy also provides that, pursuant to the waterfall of financial resources used in the event of a Clearing Member suspension,

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[29] Id.

[30] Id.

[31] 17 CFR 240.17Ad-22(e)(4)(ix).

OCC could use current or retained earnings, consistent with OCC's By-Laws, to continue meeting its financial obligations.

The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

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

Section 17A(b)(3)(I) of the Act[32] 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 impact or impose any burden on competition. As a general matter, the DM Policy describes the processes OCC would follow in a default that are already set forth in OCC's approved By-Laws and Rules. More specifically, the proposed rule change sets forth in a single document the framework OCC would use to manage the default primarily of a Clearing Member, as well as the default of a settlement bank or FMU. Because any individual Clearing Member, settlement bank, or FMU under the DM Policy is equally subject to the aspects of OCC's default management framework that apply to it, the proposed rule change would not provide any such entity with a competitive advantage over any other similar entity. OCC notes that, in managing any potential default, OCC focuses on the risk posed to OCC by such default. Accordingly, to the extent, for example, that OCC were to close-out the open positions of one suspended Clearing Member in a different manner than it were to close-out the open positions of another Clearing Member, such differences result from the risks posed to OCC by each Clearing Member's respective positions. Moreover, the treatment of customer versus proprietary positions in a default

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[32] 15 U.S.C. 78q-1(b)(3)(I).

scenario are not specifically addressed in the DM Policy, which as noted sets forth a general framework for managing defaults, but rather in OCC's existing By-Laws and Rules. Further, the proposed rule change would not affect Clearing Members' access to OCC's services or impose any direct burdens on Clearing Members.

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 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

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 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-2017-010 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2017-010. 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 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 http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_17_010.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-2017-010 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.[33]

Robert W. Errett
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:_____________________________

[33] 17 CFR 200.30-3(a)(12).