



November 29, 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-2017-008 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 Collateral Risk 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-2017-008, the Collateral Risk Management Policy, contained in pages 32-42 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 Collateral Risk Management Policy (“CRM 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>.

Collateral Risk Management Policy

OCC proposes to formalize and update its CRM Policy. The purpose of the CRM Policy is to describe OCC's framework for collateral acceptability, valuations and haircuts, and collateral maintenance. The CRM Policy, as proposed, is designed to limit collateral to assets with low credit, liquidity, and market risks, and to establish appropriately conservative haircuts and concentration limits that are reviewed no less than annually. OCC notes that the CRM Policy is part of a broader framework regarding collateral risk management, including OCC's By-Laws, Rules, and other policies, that are designed to ensure that OCC accepts appropriate collateral to remain resilient in times of market stress.

The descriptions below provide a general overview of the four substantive sections of OCC's CRM Policy.

Collateral Acceptability

The CRM Policy describes the categories of risk that are considered by OCC in determining which asset classes should be acceptable forms of collateral as margin assets and Clearing Fund contributions. OCC's assessment of an asset class generally includes an evaluation of market risk, credit risk, liquidity risk. This assessment is conducted by the Credit and Liquidity Risk Working Group ("CLRWG"), which is a cross functional group comprised of representatives from multiple departments as noted in the Credit and Liquidity Risk Working Group Procedure. The CRM Policy further provides that the CLRWG establishes criteria for each asset class considered an acceptable form of collateral that evaluates additional risks with respect to the asset class such as execution risk, custody risk, and operational risk. With respect to market risks, the CRM Policy provides that eligible assets classes are accepted after consideration of their liquidity, price transparency, price volatility, offset potential with contracts cleared by OCC, modeling implications and projected inventories.

With respect to credit risk, the CRM Policy separately considers counterparty risk and sovereign credit risk. For example, to safeguard against counterparty risk, the CRM Policy provides that the Financial Risk Management department evaluates the creditworthiness of counterparties, including custodial agents and settlement banks, against existing qualification standards and monitors the health of such counterparties on an ongoing basis through established processes, supported by a separate policy within OCC.² With respect to sovereign credit risk,³ the CRM Policy provides that CLRWG assess such risks against existing minimum sovereign

² Specifically, evaluations of OCC's counterparties are supported by the Counterparty Credit Risk Management Policy.

³ Sovereign credit risk refers primarily to the risk associated with accepting a foreign country's debt as collateral or the impact sovereign risk could have on the credit risk of OCC's counterparties.

ratings and by evaluating, among other characteristics, credit, market, liquidity, and exchange rate risks.

Pursuant to the CRM Policy, OCC mitigates liquidity risk⁴ by limiting acceptable collateral to asset classes with low liquidity risk, giving no value to a participant for its own (or its affiliate's) debt or equity securities⁵ and limiting the amount of a particular asset type that a participant may pledge.⁶ The CRM Policy also provides that OCC takes other risks, such as execution risk,⁷ custody risk,⁸ and operational risk,⁹ into consideration when managing collateral risk.

Valuations and Haircuts

The CRM Policy describes OCC's approach to valuing collateral and setting and applying haircuts. With respect to valuation, the CRM Policy provides that OCC's key considerations focus on its pricing process, the period of time between collateral revaluations (which are at least daily), established haircuts to mitigate market risk, and the periodic re-evaluation of the adequacy of existing haircuts. OCC's pricing information, as described in the CRM Policy, feeds into OCC's processes for establishing margin levels or haircuts, daily mark-to-market valuation of collateral, and intraday valuation of collateral. Given the importance of pricing data to inform these processes, OCC maintains redundant information feeds from multiple sources to ensure accuracy and quality. The CRM Policy further summarizes OCC's two approaches for valuing collateral: Collateral in Margins ("CiM") and haircuts.¹⁰ For

⁴ Liquidity risk generally refers to the potential price impact that may be observed when selling a collateral position whose size surpasses the market's current depth.

⁵ Giving no value to a participant's own securities or its affiliate's securities is a means of addressing wrong-way risk. Notwithstanding this prohibition, equity securities of participants can be used to hedge options positions on such equity securities. See OCC Rules 601 and 610.

⁶ Limiting the amount of a particular asset type a participant may pledge is also a means of addressing concentration risk. Specifically, the CRM Policy provides that OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio.

⁷ Execution risk generally refers to the risk that a counterparty fails to deliver cash or securities when required.

⁸ Custody risk refers to, for example, the risk that a custodian holding OCC collateral becomes insolvent.

⁹ Operational risk generally refers to the risk that collateral cannot be delivered on a timely basis.

¹⁰ Under the CiM approach, the current market value of margin assets is included as a positive asset value in the calculation of a portfolio's net asset value within OCC's System for Theoretical Analysis and Numerical Simulations ("STANS"). OCC then offsets this positive asset value

collateral that is not managed using the CiM process, the CRM Policy provides that OCC subjects such collateral to percentage haircuts established at the time the collateral is accepted by OCC and that are monitored regularly to ensure the haircuts remain adequate.

Collateral Management Process

The CRM Policy also outlines the three parts of OCC's collateral management processes: (1) systems and processing; (2) reconciliation; and (3) reporting. With respect to systems and processing, the CRM Policy provides, among other things, that OCC's collateral management system has controls intended to ensure that no Clearing Member goes into collateral deficit and that it is designed to report the excess/deficit status for each account in real-time. OCC also stress tests the system annually to ensure that it can accommodate a large number of automated transactions. With respect to reconciliation, the CRM Policy provides that OCC performs daily balancing of collateral against activity and inventory data from custodial banks and depositories. The CRM Policy further provides that OCC regularly reviews collateral deposited pursuant to a letter of credit or depository receipt, and the escrow deposit banks, to ensure that acceptable and sufficient collateral is maintained. With respect to reporting, the CRM Policy provides that OCC systematically delivers end-of-day activity and inventory reports to Clearing Members and custody banks and that reports regarding intraday activity can also be obtained.

Finally, the CRM Policy provides an overview of OCC's collateral re-investment options, collateral re-hypothecation and substitution ability, existing cross-margining agreements and margin offsets, which are detailed separately in OCC's Cash and Investment Management Policy.

Governance and Annual Review

The CRM Policy provides that the CLRWG reviews the policy's performance and adequacy on at least an annual basis, including with respect to collateral eligibility, concentration limits, collateral haircuts and monitoring processes. Recommendations for changes are presented to OCC's Management Committee and then the Risk Committee. The CRM Policy also specifies that collateral haircuts and concentration limits are reviewed on an annual basis by persons who are independent of OCC management and that adding a new asset class as acceptable collateral requires approval from OCC's Management Committee, Board of Directors and the Commission.

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:

based on, among other things, the expected shortfall and stress test charges associated with an account, resulting in a net excess or net deficit.

Financial resources. CFTC Regulation 39.11 generally requires a DCO to maintain financial resources sufficient to cover its exposures with a high degree of confidence and to enable it to perform its functions in compliance with the core principles set out in section 5b of the Act. Paragraph (d) of Regulation 39.11 requires in part that at appropriate intervals, but not less than monthly, a DCO to compute the current market value of each financial resource used to meet its obligations under the Regulation, and that reductions in value to reflect credit, market, and liquidity risks (haircuts) shall be applied as appropriate and evaluated on a monthly basis. Paragraph (e) requires in part that assets in a guaranty fund have minimal credit, market, and liquidity risks and shall be readily accessible on a same-day basis.

The CRM Policy sets forth the processes that OCC uses to limit collateral to assets with low credit, liquidity, and market risks, and to establish appropriately conservative haircuts and concentration limits. As described in more detail above in the subsection discussing Collateral Acceptability, the CRM Policy provides that in determining assets that are acceptable as collateral OCC evaluates market, credit and liquidity risk as well as additional risks, such as execution, custody and operational risk. With respect to collateral valuation, the CRM Policy describes that, OCC's key considerations focus on its pricing process, the period between collateral revaluations (which are at least daily), established haircuts to mitigate market risk and the periodic re-evaluation of the adequacy of existing haircuts. Moreover, OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio. The CRM Policy further requires that its performance and adequacy be reviewed on at least an annual basis, including with regard to collateral eligibility, concentration limits, collateral haircuts and related monitoring processes

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 CFTC Regulation 39.11.

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 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.

Christopher J. Kirkpatrick
November 29, 2017
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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

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="42"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="008"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Options Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

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

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

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

Proposed rule change concerning The Options Clearing Corporation's Collateral Risk 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 * <input type="text" value="Justin"/>	Last Name * <input type="text" value="Byrne"/>
Title * <input type="text" value="Vice President, Regulatory Filings"/>	
E-mail * <input type="text" value="jbyrne@theocc.com"/>	
Telephone * <input type="text" value="(202) 971-7238"/>	Fax <input type="text" value="(312) 322-6280"/>

Signature

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

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

(Title *)

Date <input type="text" value="10/27/2017"/>	<input type="text" value="Vice President, Regulatory Filings"/>
By <input type="text" value="Justin W. Byrne"/>	<input type="text" value="Justin W. Byrne"/>
(Name *)	

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF 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 *

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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 Collateral Risk Management Policy. The policy would promote compliance with Rule 17Ad-22(e)(5), which generally requires a covered clearing agency to have policies and procedures reasonably designed to, among other things, limit the assets it accepts as collateral to those with low credit, liquidity, and market risks and subject such assets to appropriate haircuts and concentration limits that are reviewed for continued sufficiency not less than annually.¹ The Collateral Risk Management Policy is included as 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.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 (“Board”) at a meeting held on February 24, 2017.

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

¹ 17 CFR 240.17Ad-22(e)(5).

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

On September 28, 2016, the Commission adopted amendments to Rule 17Ad-22³ and added new Rule 17Ab2-2⁴ 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 “CCA” rules). The CCA rules require that a covered clearing agency, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to:

“[l]imit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit

³ 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).

exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually.”⁸

OCC meets the definition of a covered clearing agency, and is therefore subject to the requirements of the CCA rules, including Rule 17Ad-22(e)(5).⁹

Collateral Risk Management Policy

OCC proposes to formalize and update its Collateral Risk Management Policy (“CRM Policy”). The purpose of the CRM Policy is to describe OCC’s framework for collateral acceptability, valuations and haircuts, and collateral maintenance. The CRM Policy, as proposed, is designed to promote compliance with the Rule 17Ad-22(e)(5)¹⁰ requirements that mandate that covered clearing agencies have written policies and procedures that are reasonably designed to limit collateral to assets with low credit, liquidity, and market risks, and that establish appropriately conservative haircuts and concentration limits that are reviewed no less than annually. OCC notes that the CRM Policy is part of a broader framework regarding collateral risk management, including OCC’s By-Laws, Rules, and other policies, that are designed to ensure that OCC accepts appropriate collateral to remain resilient in times of market stress.¹¹

⁸ 17 CFR 240.17Ad-22(e)(5).

⁹ Id.

¹⁰ Id.

¹¹ Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786, 70812 (October 13, 2016) (“CCA Adopting Release”) (noting that the requirements of Rule

With regard to a covered clearing agency's policies and procedures that address collateral, the Commission noted in the release adopting the CCA rules that such policies and procedures generally should take into account whether the covered clearing agency has: (1) limited the assets it accepts to those with low credit, liquidity, and market risks; (2) established prudent valuation practices and developed haircuts that are regularly tested and take into account stressed market conditions; (3), established stable and conservative haircuts to reduce the need for pro-cyclical adjustments; (4) avoided concentrated holdings of certain assets where such holdings would significantly impair the ability to liquidate the assets quickly and without significant adverse price affects; (5) mitigated risks associated with the use of cross-border collateral, as applicable, and ensured that the collateral can be used in a timely manner; and (6) uses a collateral management system that is well designed and operationally flexible.¹²

Certain descriptions in the CRM Policy are included to promote compliance with the Commission's guidance and Rule 17Ad-22(e)(5). For example, consistent with the guidance regarding cross-border collateral, the CRM Policy provides that OCC has the authority to reduce the haircut value of Canadian government securities if it observes increased credit risk, and that OCC applies an additional haircut to such securities to cover exchange rate risk. Consistent with the Commission's guidance that collateral risk management systems should remain operationally flexible, the CRM Policy also describes the authority of the Financial Risk Management

17Ad-22(e)(5) are "intended to "help ensure that a covered clearing agency is resilient in times of market stress").

¹² Id. at 70816.

department (“FRM”) to reject a collateral withdrawal request if OCC determines that a Clearing Member’s reasonably anticipated settlement obligations exceed available liquidity resources.

The descriptions below provide a general overview of the three substantive sections of OCC’s CRM Policy.

Collateral Acceptability

The CRM Policy describes the categories of risk that are considered by OCC in determining which asset classes should be acceptable forms of collateral as margin assets and Clearing Fund contributions. OCC’s assessment of an asset class generally includes an evaluation of market risk, credit risk, liquidity risk. This assessment is conducted by the Credit and Liquidity Risk Working Group (“CLRWG”), which is a cross functional group comprised of representatives from multiple departments as noted in the Credit and Liquidity Risk Working Group Procedure. The CRM Policy further provides that the CLRWG establishes criteria for each asset class considered an acceptable form of collateral that evaluates additional risks with respect to the asset class such as execution risk, custody risk, and operational risk. With respect to market risks, the CRM Policy provides that eligible assets classes are accepted after consideration of their liquidity, price transparency, price volatility, offset potential with contracts cleared by OCC, modeling implications and projected inventories.

With respect to credit risk, the CRM Policy separately considers counterparty risk and sovereign credit risk. For example, to safeguard against counterparty risk, the CRM Policy provides that FRM evaluates the creditworthiness of counterparties, including custodial agents and settlement banks, against existing qualification standards and monitors the health of such

counterparties on an ongoing basis through established processes, supported by a separate policy within OCC.¹³ With respect to sovereign credit risk,¹⁴ the CRM Policy provides that CLRWG assess such risks against existing minimum sovereign ratings and by evaluating, among other characteristics, credit, market, liquidity, and exchange rate risks.

Pursuant to the CRM Policy, OCC mitigates liquidity risk¹⁵ by limiting acceptable collateral to asset classes with low liquidity risk, giving no value to a participant for its own (or its affiliate's) debt or equity securities¹⁶ and limiting the amount of a particular asset type that a participant may pledge.¹⁷ The CRM Policy also provides that OCC takes other risks, such as

¹³ Specifically, evaluations of OCC's counterparties are supported by the Counterparty Credit Risk Management Policy.

¹⁴ Sovereign credit risk refers primarily to the risk associated with accepting a foreign country's debt as collateral or the impact sovereign risk could have on the credit risk of OCC's counterparties.

¹⁵ Liquidity risk generally refers to the potential price impact that may be observed when selling a collateral position whose size surpasses the market's current depth.

¹⁶ Giving no value to a participant's own securities or its affiliate's securities is a means of addressing wrong-way risk. See CCA Adopting Release, supra note 11, at n.317 (discussing wrong-way risk). Notwithstanding this prohibition, equity securities of participants can be used to hedge options positions on such equity securities. See OCC Rules 601 and 610.

¹⁷ Limiting the amount of a particular asset type a participant may pledge is also a means of addressing concentration risk. Specifically, the CRM Policy provides that OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio.

execution risk,¹⁸ custody risk,¹⁹ and operational risk,²⁰ into consideration when managing collateral risk.

Valuations and Haircuts

The CRM Policy describes OCC's approach to valuing collateral and setting and applying haircuts. With respect to valuation, the CRM Policy provides that OCC's key considerations focus on its pricing process, the period of time between collateral revaluations (which are at least daily), established haircuts to mitigate market risk, and the periodic re-evaluation of the adequacy of existing haircuts. OCC's pricing information, as described in the CRM Policy, feeds into OCC's processes for establishing margin levels or haircuts, daily mark-to-market valuation of collateral, and intraday valuation of collateral. Given the importance of pricing data to inform these processes, OCC maintains redundant information feeds from multiple sources to ensure accuracy and quality. The CRM Policy further summarizes OCC's two approaches for valuing collateral: Collateral in Margins ("CiM") and haircuts.²¹ For

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¹⁹ Custody risk refers to, for example, the risk that a custodian holding OCC collateral becomes insolvent.

²⁰ Operational risk generally refers to the risk that collateral cannot be delivered on a timely basis.

²¹ Under the CiM approach, the current market value of margin assets is included as a positive asset value in the calculation of a portfolio's net asset value within OCC's System for Theoretical Analysis and Numerical Simulations ("STANS"). OCC then offsets this positive asset value based on, among other things, the expected shortfall and stress test charges associated with an account, resulting in a net excess or net deficit.

collateral that is not managed using the CiM process, the CRM Policy provides that OCC subjects such collateral to percentage haircuts established at the time the collateral is accepted by OCC and that are monitored regularly to ensure the haircuts remain adequate.

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The CRM Policy also outlines the three parts of OCC's collateral management processes: (1) systems and processing; (2) reconciliation; and (3) reporting. With respect to systems and processing, the CRM Policy provides, among other things, that OCC's collateral management system has controls intended to ensure that no Clearing Member goes into collateral deficit and that it is designed to report the excess/deficit status for each account in real-time. OCC also stress tests the system annually to ensure that it can accommodate a large number of automated transactions. With respect to reconciliation, the CRM Policy provides that OCC performs daily balancing of collateral against activity and inventory data from custodial banks and depositories. The CRM Policy further provides that OCC regularly reviews collateral deposited pursuant to a letter of credit or depository receipt, and the escrow deposit banks, to ensure that acceptable and sufficient collateral is maintained. With respect to reporting, the CRM Policy provides that OCC systematically delivers end-of-day activity and inventory reports to Clearing Members and custody banks and that reports regarding intraday activity can also be obtained.

Finally, the CRM Policy provides an overview of OCC's collateral re-investment options, collateral re-hypothecation and substitution ability, existing cross-margining agreements and margin offsets, which are detailed separately in OCC's Cash and Investment Management Policy.

Governance and Annual Review

The CRM Policy provides that the CLRWG reviews the policy's performance and adequacy on at least an annual basis, including with respect to collateral eligibility, concentration limits, collateral haircuts and monitoring processes. Recommendations for changes are presented to OCC's Management Committee and then the Risk Committee. The CRM Policy also specifies that collateral haircuts and concentration limits are reviewed on an annual basis by persons who are independent of OCC management and that adding a new asset class as acceptable collateral requires approval from OCC's Management Committee, Board of Directors and the Commission.

B. Statutory Basis

Section 17A(b)(3)(F) of the Act²² 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 CRM Policy sets forth the processes that OCC uses to limit collateral to assets with low credit, liquidity, and market risks, and to establish appropriately conservative haircuts and concentration limits. OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) because the CRM Policy is reasonably designed to protect investors and the public interest by setting forth the processes that OCC uses to limit the collateral assets that OCC accepts to appropriate, risk-adjusted assets that, in turn, promote the prompt and accurate clearance and

²² 15 U.S.C. 78q-1(b)(3)(F).

settlement of securities transactions by supporting OCC's ability to use the collateral to meet settlement obligations, as necessary, even in times of market stress.

Rule 17Ad-22(e)(5)²³ requires that OCC establish, implement, maintain and enforce written policies and procedures that are reasonably designed to “[l]imit the assets it accepts as collateral to those with low credit, liquidity, and market risks.” As described in more detail above in the subsection discussing Collateral Acceptability, the CRM Policy provides that in determining assets that are acceptable as collateral OCC evaluates market, credit and liquidity risk as well as additional risks, such as execution, custody and operational risk. Rule 17Ad-22(e)(5)²⁴ also requires OCC to set and enforce appropriately conservative haircuts and concentration limits. In this regard, the CRM Policy describes that, with respect to collateral valuation, OCC's key considerations focus on its pricing process, the period between collateral revaluations (which are at least daily), established haircuts to mitigate market risk and the periodic re-evaluation of the adequacy of existing haircuts. Moreover, OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio. Finally, Rule 17Ad-22(e)(5)²⁵ provides that OCC must require a

²³ 17 CFR 240.17Ad-22(e)(5).

²⁴ Id.

²⁵ Id.

review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually. The CRM Policy is consistent with this provision because it requires its performance and adequacy to be reviewed on at least an annual basis, including with regard to collateral eligibility, concentration limits, collateral haircuts and related monitoring processes. For these reasons, OCC believes that the proposed rule change is consistent with Rule 17Ad-22(e)(5).²⁶

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 Act²⁷ 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.²⁸ The proposed rule change sets forth the framework, as described in the CRM Policy, that OCC already uses pursuant to its approved By-Laws and Rules to accept collateral with low credit, liquidity, and market risks, and to set and enforce appropriately conservative haircuts and concentration limits. The framework further requires that a review of the sufficiency of OCC’s collateral haircuts and concentration limits be performed not less than

²⁶ Id.

²⁷ 15 U.S.C. 78q-1(b)(3)(I).

²⁸ Id.

annually. Under this framework, and as provided for in its By-Laws and Rules, all Clearing Members are subject to the same limitations on acceptable collateral as well as to the same haircuts and concentration limits. Consequently, no Clearing Member is provided a competitive advantage over any other Clearing Member. Further, the proposed rule change would not affect Clearing Member's access to OCC's services or impose any direct burdens on Clearing Members. Accordingly, the proposed rule change would not unfairly inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another user.

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. Collateral Risk 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-2017-008)

November [__], 2017

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Related to The Options Clearing Corporation's Collateral Risk 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 27, 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 Collateral Risk Management Policy (“CRM Policy”). This policy would promote compliance with Rule 17Ad-22(e)(5), which generally requires a covered clearing agency to have policies and procedures reasonably designed to, among other things, limit the assets it accepts as collateral to those with low credit, liquidity, and market risks and subject such assets to appropriate haircuts and concentration limits that

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

are reviewed for continued sufficiency not less than annually.³ The Collateral Risk Management Policy is included as confidential Exhibit 5 of the filing.

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-22⁵ and added new Rule 17Ab2-2⁶ pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, ("Act")⁷ and the Payment, Clearing, and Settlement Supervision Act

³ 17 CFR 240.17Ad-22(e)(5).

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

⁵ 17 CFR 240.17Ad-22.

⁶ 17 CFR 240.17Ab2-2.

⁷ 15 U.S.C. 78q-1.

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 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 “CCA” rules). The CCA rules require that a covered clearing agency, among other things, establish, implement, maintain, and enforce written policies and procedures reasonably designed to:

“[l]imit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually.”¹⁰

OCC meets the definition of a covered clearing agency, and is therefore subject to the requirements of the CCA rules, including Rule 17Ad-22(e)(5).¹¹

Collateral Risk Management Policy

OCC proposes to formalize and update its CRM Policy. The purpose of the CRM Policy is to describe OCC’s framework for collateral acceptability, valuations and haircuts, and collateral maintenance. The CRM Policy, as proposed, is designed to promote compliance with the Rule 17Ad-22(e)(5)¹² requirements that mandate that covered clearing agencies have written policies and procedures that are reasonably

⁸ 12 U.S.C. 5461 *et. seq.*

⁹ 17 CFR 240.17Ad-22(a)(5).

¹⁰ 17 CFR 240.17Ad-22(e)(5).

¹¹ *Id.*

¹² *Id.*

designed to limit collateral to assets with low credit, liquidity, and market risks, and that establish appropriately conservative haircuts and concentration limits that are reviewed no less than annually. OCC notes that the CRM Policy is part of a broader framework regarding collateral risk management, including OCC's By-Laws, Rules, and other policies, that are designed to ensure that OCC accepts appropriate collateral to remain resilient in times of market stress.¹³

With regard to a covered clearing agency's policies and procedures that address collateral, the Commission noted in the release adopting the CCA rules that such policies and procedures generally should take into account whether the covered clearing agency has: (1) limited the assets it accepts to those with low credit, liquidity, and market risks; (2) established prudent valuation practices and developed haircuts that are regularly tested and take into account stressed market conditions; (3), established stable and conservative haircuts to reduce the need for pro-cyclical adjustments; (4) avoided concentrated holdings of certain assets where such holdings would significantly impair the ability to liquidate the assets quickly and without significant adverse price affects; (5) mitigated risks associated with the use of cross-border collateral, as applicable, and ensured that the collateral can be used in a timely manner; and (6) uses a collateral management system that is well designed and operationally flexible.¹⁴

¹³ Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786, 70812 (October 13, 2016) ("CCA Adopting Release") (noting that the requirements of Rule 17Ad-22(e)(5) are "intended to "help ensure that a covered clearing agency is resilient in times of market stress").

¹⁴ Id. at 70816.

Certain descriptions in the CRM Policy are included to promote compliance with the Commission's guidance and Rule 17Ad-22(e)(5). For example, consistent with the guidance regarding cross-border collateral, the CRM Policy provides that OCC has the authority to reduce the haircut value of Canadian government securities if it observes increased credit risk, and that OCC applies an additional haircut to such securities to cover exchange rate risk. Consistent with the Commission's guidance that collateral risk management systems should remain operationally flexible, the CRM Policy also describes the authority of the Financial Risk Management department ("FRM") to reject a collateral withdrawal request if OCC determines that a Clearing Member's reasonably anticipated settlement obligations exceed available liquidity resources.

The descriptions below provide a general overview of the three substantive sections of OCC's CRM Policy.

Collateral Acceptability

The CRM Policy describes the categories of risk that are considered by OCC in determining which asset classes should be acceptable forms of collateral as margin assets and Clearing Fund contributions. OCC's assessment of an asset class generally includes an evaluation of market risk, credit risk, liquidity risk. This assessment is conducted by the Credit and Liquidity Risk Working Group ("CLRWG"), which is a cross functional group comprised of representatives from multiple departments as noted in the Credit and Liquidity Risk Working Group Procedure. The CRM Policy further provides that the CLRWG establishes criteria for each asset class considered an acceptable form of collateral that evaluates additional risks with respect to the asset class such as execution risk, custody risk, and operational risk. With respect to market risks, the CRM Policy

provides that eligible assets classes are accepted after consideration of their liquidity, price transparency, price volatility, offset potential with contracts cleared by OCC, modeling implications and projected inventories.

With respect to credit risk, the CRM Policy separately considers counterparty risk and sovereign credit risk. For example, to safeguard against counterparty risk, the CRM Policy provides that FRM evaluates the creditworthiness of counterparties, including custodial agents and settlement banks, against existing qualification standards and monitors the health of such counterparties on an ongoing basis through established processes, supported by a separate policy within OCC.¹⁵ With respect to sovereign credit risk,¹⁶ the CRM Policy provides that CLRWG assess such risks against existing minimum sovereign ratings and by evaluating, among other characteristics, credit, market, liquidity, and exchange rate risks.

Pursuant to the CRM Policy, OCC mitigates liquidity risk¹⁷ by limiting acceptable collateral to asset classes with low liquidity risk, giving no value to a participant for its own (or its affiliate's) debt or equity securities¹⁸ and limiting the amount of a particular

¹⁵ Specifically, evaluations of OCC's counterparties are supported by the Counterparty Credit Risk Management Policy.

¹⁶ Sovereign credit risk refers primarily to the risk associated with accepting a foreign country's debt as collateral or the impact sovereign risk could have on the credit risk of OCC's counterparties.

¹⁷ Liquidity risk generally refers to the potential price impact that may be observed when selling a collateral position whose size surpasses the market's current depth.

¹⁸ Giving no value to a participant's own securities or its affiliate's securities is a means of addressing wrong-way risk. See CCA Adopting Release, supra note 11, at n.317 (discussing wrong-way risk). Notwithstanding this prohibition, equity securities of participants can be used to hedge options positions on such equity securities. See OCC Rules 601 and 610.

asset type that a participant may pledge.¹⁹ The CRM Policy also provides that OCC takes other risks, such as execution risk,²⁰ custody risk,²¹ and operational risk,²² into consideration when managing collateral risk.

Valuations and Haircuts

The CRM Policy describes OCC's approach to valuing collateral and setting and applying haircuts. With respect to valuation, the CRM Policy provides that OCC's key considerations focus on its pricing process, the period of time between collateral revaluations (which are at least daily), established haircuts to mitigate market risk, and the periodic re-evaluation of the adequacy of existing haircuts. OCC's pricing information, as described in the CRM Policy, feeds into OCC's processes for establishing margin levels or haircuts, daily mark-to-market valuation of collateral, and intraday valuation of collateral. Given the importance of pricing data to inform these processes, OCC maintains redundant information feeds from multiple sources to ensure accuracy and quality. The CRM Policy further summarizes OCC's two approaches for valuing

¹⁹ Limiting the amount of a particular asset type a participant may pledge is also a means of addressing concentration risk. Specifically, the CRM Policy provides that OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio.

²⁰ Execution risk generally refers to the risk that a counterparty fails to deliver cash or securities when required.

²¹ Custody risk refers to, for example, the risk that a custodian holding OCC collateral becomes insolvent.

²² Operational risk generally refers to the risk that collateral cannot be delivered on a timely basis.

collateral: Collateral in Margins (“CiM”) and haircuts.²³ For collateral that is not managed using the CiM process, the CRM Policy provides that OCC subjects such collateral to percentage haircuts established at the time the collateral is accepted by OCC and that are monitored regularly to ensure the haircuts remain adequate.

Collateral Management Process

The CRM Policy also outlines the three parts of OCC’s collateral management processes: (1) systems and processing; (2) reconciliation; and (3) reporting. With respect to systems and processing, the CRM Policy provides, among other things, that OCC’s collateral management system has controls intended to ensure that no Clearing Member goes into collateral deficit and that it is designed to report the excess/deficit status for each account in real-time. OCC also stress tests the system annually to ensure that it can accommodate a large number of automated transactions. With respect to reconciliation, the CRM Policy provides that OCC performs daily balancing of collateral against activity and inventory data from custodial banks and depositories. The CRM Policy further provides that OCC regularly reviews collateral deposited pursuant to a letter of credit or depository receipt, and the escrow deposit banks, to ensure that acceptable and sufficient collateral is maintained. With respect to reporting, the CRM Policy provides that OCC systematically delivers end-of-day activity and inventory reports to Clearing Members and custody banks and that reports regarding intraday activity can also be obtained.

²³ Under the CiM approach, the current market value of margin assets is included as a positive asset value in the calculation of a portfolio’s net asset value within OCC’s System for Theoretical Analysis and Numerical Simulations (“STANS”). OCC then offsets this positive asset value based on, among other things, the expected shortfall and stress test charges associated with an account, resulting in a net excess or net deficit.

Finally, the CRM Policy provides an overview of OCC's collateral re-investment options, collateral re-hypothecation and substitution ability, existing cross-margining agreements and margin offsets, which are detailed separately in OCC's Cash and Investment Management Policy.

Governance and Annual Review

The CRM Policy provides that the CLRWG reviews the policy's performance and adequacy on at least an annual basis, including with respect to collateral eligibility, concentration limits, collateral haircuts and monitoring processes. Recommendations for changes are presented to OCC's Management Committee and then the Risk Committee. The CRM Policy also specifies that collateral haircuts and concentration limits are reviewed on an annual basis by persons who are independent of OCC management and that adding a new asset class as acceptable collateral requires approval from OCC's Management Committee, Board of Directors and the Commission.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act²⁴ 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 CRM Policy sets forth the processes that OCC uses to limit collateral to assets with low credit, liquidity, and market risks, and to establish appropriately conservative haircuts and concentration limits. OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) because the CRM Policy is reasonably designed to protect investors and the public interest by setting forth the processes that OCC uses to limit the collateral

²⁴ 15 U.S.C. 78q-1(b)(3)(F).

assets that OCC accepts to appropriate, risk-adjusted assets that, in turn, promote the prompt and accurate clearance and settlement of securities transactions by supporting OCC's ability to use the collateral to meet settlement obligations, as necessary, even in times of market stress.

Rule 17Ad-22(e)(5)²⁵ requires that OCC establish, implement, maintain and enforce written policies and procedures that are reasonably designed to “[l]imit the assets it accepts as collateral to those with low credit, liquidity, and market risks.” As described in more detail above in the subsection discussing Collateral Acceptability, the CRM Policy provides that in determining assets that are acceptable as collateral OCC evaluates market, credit and liquidity risk as well as additional risks, such as execution, custody and operational risk. Rule 17Ad-22(e)(5)²⁶ also requires OCC to set and enforce appropriately conservative haircuts and concentration limits. In this regard, the CRM Policy describes that, with respect to collateral valuation, OCC's key considerations focus on its pricing process, the period between collateral revaluations (which are at least daily), established haircuts to mitigate market risk and the periodic re-evaluation of the adequacy of existing haircuts. Moreover, OCC mitigates concentration risk by limiting the aggregation or concentration of large positions relative to market depth for a security and, consistent with OCC's liquidation assumptions, restricts the value given to collateral assets beyond amounts that are determined to serve as a hedge to a Clearing Member's portfolio. Finally, Rule 17Ad-22(e)(5)²⁷ provides that OCC must require a review of the

²⁵ 17 CFR 240.17Ad-22(e)(5).

²⁶ Id.

²⁷ Id.

sufficiency of its collateral haircuts and concentration limits to be performed not less than annually. The CRM Policy is consistent with this provision because it requires its performance and adequacy to be reviewed on at least an annual basis, including with regard to collateral eligibility, concentration limits, collateral haircuts and related monitoring processes. For these reasons, OCC believes that the proposed rule change is consistent with Rule 17Ad-22(e)(5).²⁸

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 Act²⁹ 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.³⁰ The proposed rule change sets forth the framework, as described in the CRM Policy, that OCC already uses pursuant to its approved By-Laws and Rules to accept collateral with low credit, liquidity, and market risks, and to set and enforce appropriately conservative haircuts and concentration limits. The framework further requires that a review of the sufficiency of OCC's collateral haircuts and concentration limits be performed not less than annually. Under this framework, and as provided for in its By-Laws and Rules, all Clearing Members are subject to the same limitations on acceptable collateral as well as to the same haircuts and

²⁸ Id.

²⁹ 15 U.S.C. 78q-1(b)(3)(I).

³⁰ Id.

concentration limits. Consequently, no Clearing Member is provided a competitive advantage over any other Clearing Member. Further, the proposed rule change would not affect Clearing Member's access to OCC's services or impose any direct burdens on Clearing Members. Accordingly, the proposed rule change would not unfairly inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another user.

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-2017-008 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-2017-008. 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_008.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-2017-008 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.³¹

Eduardo A. Aleman
Assistant 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: _____

³¹ 17 CFR 200.30-3(a)(12).