



December 16, 2020

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-2020-015 Rule Certification

Dear Secretary Kirkpatrick:

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

OCC has requested confidential treatment for Exhibits 3 and 5 to SR-OCC-2020-015 (contained in pages 26-69 of SR-OCC-2020-015).

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

Explanation and Analysis

The proposed rule change by OCC concerns the implementation of additional stress test scenarios designed to test the sufficiency of OCC’s prefunded financial resources. The proposed changes to OCC’s Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description (“Methodology Description”) are included in Exhibit 5 of filing SR-OCC-2020-015. Material proposed to be added is underlined and material proposed to be deleted is marked in strikethrough text. All terms with initial capitalization that are not 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:
<https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

Background

OCC performs daily stress testing using a wide range of scenarios, both hypothetical and historical,² designed to serve multiple purposes.³ OCC's stress testing inventory contains scenarios designed to: (1) determine whether the financial resources collected from all Clearing Members collectively are adequate to cover OCC's risk tolerance ("Adequacy Scenarios"); (2) establish the monthly size of the Clearing Fund at an amount necessary to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure as a result of a 1-in-80 year hypothetical market event ("Sizing Scenarios"); (3) measure the exposure of the Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources to guard against potential losses under a wide range of stress scenarios, including extreme but plausible market conditions ("Sufficiency Scenarios"); and (4) monitor and assess the size of OCC's prefunded financial resources against a wide range of stress scenarios that may include newly developed stress scenarios for evaluation as well as extreme but implausible scenarios ("Informational Scenarios"). Adequacy and Informational Scenarios are not used directly to size the Clearing Fund or drive calls for additional financial resources from OCC's Clearing Members.

Pursuant to OCC Rule 609 and OCC's Clearing Fund Methodology Policy, if any of OCC's Sufficiency Scenarios identifies exposures that exceed 75% of the current Clearing Fund requirement less deficits, OCC may require additional margin deposits from the Clearing Member Group(s) driving the breach. Additionally, pursuant to Rule 1001(c) and the Clearing Fund Methodology Policy, if a Sufficiency Scenario identifies a Clearing Fund draw for any one or two

² OCC's historical scenarios are intended to replicate historical events in current market conditions, which includes the set of currently existing securities, their prices, and volatility levels. These scenarios provide OCC with information regarding pre-defined reference points determined to be relevant benchmarks for assessing OCC's exposure to Clearing Members and the adequacy of its financial resources. OCC's hypothetical scenarios represent events in which market conditions change in ways that have not yet been observed. These hypothetical scenarios are derived using statistical methods (e.g., draws from estimated multivariate distributions) or created based on a mix of statistical techniques and expert judgment (e.g., a 15% decline in market prices and 50% increase in volatility).

³ On July 26, 2018, the SEC issued a Notice of No Objection to an advance notice by OCC concerning the adoption of a new stress testing and Clearing Fund methodology. See Securities Exchange Act Release No. 83714 (July 26, 2018), 83 FR 37570 (August 1, 2018) (SR-OCC-2018-803) (Notice of No Objection to Advance Notice, as Modified by Amendments No. 1 and 2, Concerning Proposed Changes to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology). On July 27, 2018, the SEC approved a proposed rule change by OCC concerning the same proposal. See Securities Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855 (August 2, 2018) (SR-OCC-2018-008) (Order Approving Proposed Rule Change, as Modified by Amendments No. 1 and 2, Related to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology). The proposed rule change was certified with the CFTC on August 20, 2018.

Clearing Member Groups that exceeds 90% of the current Clearing Fund size (after subtracting any monies deposited as a result of a margin call in accordance with a breach of the 75% threshold), OCC has the authority to reset the size of the Clearing Fund on an intra-month basis to ensure that it continues to maintain sufficient prefunded financial resources.

Proposed Change

OCC proposes to elevate four of its current Informational Scenarios to Sufficiency Scenarios. The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020. Specifically, the proposed scenarios would include price shocks representing the most extreme market decline and rally moves in March 2020 and would include variations on these scenarios designed to account for specific-wrong way risk exposures arising from cleared positions on issued exchange traded notes (“ETNs”).⁴ In their current status as Informational Scenarios, the March 2020 scenarios do not drive the size of the Clearing Fund or calls for additional resources. However, as Sufficiency Scenarios, they would be used to measure the exposure of OCC’s Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources in the form of margin or an intra-month re-sizing of the Clearing Fund. The proposed rule change would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are necessary. The proposed rule change would thereby improve OCC’s ability to measure, monitor and manage its credit exposures to its participants and enhance OCC’s ability to manage risks in its role as a systemically important financial market utility.

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

Financial resources. OCC believes that implementing the proposed rule change would be consistent with the Core Principle B,⁵ which requires, in part, that each DCO possess financial resources that, at a minimum, exceed the total amount that would enable it to meet its financial obligations to its members and participants notwithstanding a default by the member or participant

⁴ See Securities Exchange Act Release No. 87673 (December 6, 2019), 84 FR 67981 (December 12, 2019) (SR-OCC-2019-807) (Notice of No Objection To Advance Notice Related to Proposed Changes to The Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk) and Securities Exchange Act Release No. 87718 (December 11, 2019), 84 FR 68992 (December 17, 2019) (SR-OCC-2019-010) (Order Approving Proposed Rule Change Related to Proposed Changes to the Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk).

⁵ 7 U.S.C. 7a-1(c)(2)(B).

creating the largest financial exposure for that organization in extreme but plausible market conditions.⁶ CFTC Regulation 39.11(c)(1)⁷ further requires, in part, that a DCO shall, on a monthly basis, perform stress testing that will allow it to make a reasonable calculation of such financial resources using a methodology that takes into account both historical data and hypothetical scenarios.

The proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios on a daily basis and respond quickly to collect additional financial resources from its Clearing Members if the Sufficiency Scenario exposures breach the predetermined thresholds established in OCC's Rules and Clearing Fund Methodology Policy. The proposed rule change is therefore designed to enhance OCC's overall framework for measuring and managing its credit risks and would reduce the risk that OCC's financial resources would be insufficient in the event of a default of the Clearing Member Group creating the largest financial exposure for OCC in extreme but plausible market conditions. In this regard, the proposed changes would further OCC's compliance with Core Principle B.

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.

⁶ CFTC Regulation 39.11(a)(1) provides that if a clearing member controls another clearing member or is under common control with another clearing member, the affiliated clearing members shall be deemed to be a single clearing member for purposes of this provision. 17 CFR 39.11(a)(1).

⁷ 17 CFR 39.11(c)(1).

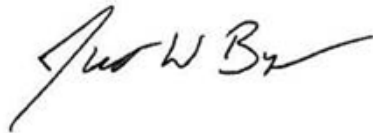
Christopher J. Kirkpatrick
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Certification

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,

A handwritten signature in black ink, appearing to read "Justin W. Byrne". The signature is fluid and cursive, with a long horizontal stroke at the end.

Justin W. Byrne
Executive Director, Associate General Counsel

Enclosure(s)

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="69"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2020"/> - * <input type="text" value="015"/> 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"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule <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 Section 806(e)(1) * <input type="checkbox"/> Section 806(e)(2) * <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

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 * Last Name *
 Title *
 E-mail *
 Telephone * Fax

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 Executive Director, Associate General Counsel
 By
 (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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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

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

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

Item 1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),¹ and Rule 19b-4 thereunder,² The Options Clearing Corporation (“OCC”) is filing with the Securities and Exchange Commission (“Commission”) this proposed rule change to implement additional stress test scenarios designed to test the sufficiency of its prefunded financial resources. The proposed changes to OCC’s Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description (“Methodology Description”) are included in Exhibit 5 of filing SR-OCC-2020-015. Material proposed to be added is underlined and material proposed to be deleted is marked in strikethrough text. All terms with initial capitalization that are not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.³

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by OCC’s Board of Directors at a meeting held on October 15, 2020.

Questions should be addressed to Justin Byrne, Executive Director, Associate General Counsel, at (202) 971-7238.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ OCC’s By-Laws and Rules can be found on OCC’s public website:
<https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

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

A. Purpose

Background

OCC performs daily stress testing using a wide range of scenarios, both hypothetical and historical,⁴ designed to serve multiple purposes.⁵ OCC’s stress testing inventory contains scenarios designed to: (1) determine whether the financial resources collected from all Clearing Members collectively are adequate to cover OCC’s risk tolerance (“Adequacy Scenarios”); (2) establish the monthly size of the Clearing Fund at an amount necessary to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest

⁴ OCC’s historical scenarios are intended to replicate historical events in current market conditions, which includes the set of currently existing securities, their prices, and volatility levels. These scenarios provide OCC with information regarding pre-defined reference points determined to be relevant benchmarks for assessing OCC’s exposure to Clearing Members and the adequacy of its financial resources. OCC’s hypothetical scenarios represent events in which market conditions change in ways that have not yet been observed. These hypothetical scenarios are derived using statistical methods (e.g., draws from estimated multivariate distributions) or created based on a mix of statistical techniques and expert judgment (e.g., a 15% decline in market prices and 50% increase in volatility).

⁵ On July 26, 2018, the Commission issued a Notice of No Objection to an advance notice by OCC concerning the adoption of a new stress testing and Clearing Fund methodology. See Securities Exchange Act Release No. 83714 (July 26, 2018), 83 FR 37570 (August 1, 2018) (SR-OCC-2018-803) (Notice of No Objection to Advance Notice, as Modified by Amendments No. 1 and 2, Concerning Proposed Changes to The Options Clearing Corporation’s Stress Testing and Clearing Fund Methodology). On July 27, 2018, the Commission approved a proposed rule change by OCC concerning the same proposal. See Securities Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855 (August 2, 2018) (SR-OCC-2018-008) (Order Approving Proposed Rule Change, as Modified by Amendments No. 1 and 2, Related to The Options Clearing Corporation’s Stress Testing and Clearing Fund Methodology).

aggregate credit exposure as a result of a 1-in-80 year hypothetical market event (“Sizing Scenarios”); (3) measure the exposure of the Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources to guard against potential losses under a wide range of stress scenarios, including extreme but plausible market conditions (“Sufficiency Scenarios”); and (4) monitor and assess the size of OCC’s prefunded financial resources against a wide range of stress scenarios that may include newly developed stress scenarios for evaluation as well as extreme but implausible scenarios (“Informational Scenarios”). Adequacy and Informational Scenarios are not used directly to size the Clearing Fund or drive calls for additional financial resources from OCC’s Clearing Members.

Pursuant to OCC Rule 609 and OCC’s Clearing Fund Methodology Policy, if any of OCC’s Sufficiency Scenarios identifies exposures that exceed 75% of the current Clearing Fund requirement less deficits, OCC may require additional margin deposits from the Clearing Member Group(s) driving the breach. Additionally, pursuant to Rule 1001(c) and the Clearing Fund Methodology Policy, if a Sufficiency Scenario identifies a Clearing Fund draw for any one or two Clearing Member Groups that exceeds 90% of the current Clearing Fund size (after subtracting any monies deposited as a result of a margin call in accordance with a breach of the 75% threshold), OCC has the authority to reset the size of the Clearing Fund on an intra-month basis to ensure that it continues to maintain sufficient prefunded financial resources.

Proposed Change

OCC proposes to elevate four of its current Informational Scenarios to Sufficiency

Scenarios. The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020. Specifically, the proposed scenarios would include price shocks representing the most extreme market decline and rally moves in March 2020 and would include variations on these scenarios designed to account for specific-wrong way risk exposures arising from cleared positions on issued exchange traded notes (“ETNs”).⁶ In their current status as Informational Scenarios, the March 2020 scenarios do not drive the size of the Clearing Fund or calls for additional resources. However, as Sufficiency Scenarios, they would be used to measure the exposure of OCC’s Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources in the form of margin or an intra-month re-sizing of the Clearing Fund. The proposed rule change would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are necessary. The proposed rule change would thereby improve OCC’s ability to measure, monitor and manage its credit exposures to its participants and enhance OCC’s ability to manage risks in its role as a systemically important financial

⁶ See Securities Exchange Act Release No. 87673 (December 6, 2019), 84 FR 67981 (December 12, 2019) (SR-OCC-2019-807) (Notice of No Objection To Advance Notice Related to Proposed Changes to The Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk) and Securities Exchange Act Release No. 87718 (December 11, 2019), 84 FR 68992 (December 17, 2019) (SR-OCC-2019-010) (Order Approving Proposed Rule Change Related to Proposed Changes to the Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk).

market utility.

B. Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A of the Exchange Act⁷ and the rules thereunder applicable to OCC. Section 17A(b)(3)(F) of the Exchange Act⁸ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions and, in general, protect investors and the public interest. The proposed rule change would enhance OCC's framework for measuring, monitoring, and managing its credit risks. Specifically, the proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly when OCC believes the collection of additional financial resources is necessary. The ability to appropriately size and test the sufficiency of prefunded financial resources is critical to ensuring that OCC can continue to provide prompt and accurate clearance and settlement of securities and derivatives transactions in the event of a Clearing Member default and manage the risks associated with its role as a systemically important financial market utility. Accordingly, OCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.⁹

Rule 17Ad-22(e)(4)(iii)¹⁰ requires, in part, that a covered clearing agency establish,

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ Id.

¹⁰ 17 CFR 240.17Ad-22(e)(4)(iii).

implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources (beyond those collected as margin) at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the participant family that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. Rule 17Ad-22(e)(4)(vi)(A)¹¹ further requires, in part, that such policies and procedures are reasonably designed to test the sufficiency of the covered clearing agency's total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(iii)¹² by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions. As described above, the proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly to collect additional financial resources from its Clearing Members if the Sufficiency Scenario exposures breach the predetermined thresholds established in OCC's Rules and Clearing Fund Methodology Policy. Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's existing Methodology Description using standard predetermined parameters and assumptions. As a result, OCC believes the proposed rule change is designed to further OCC's compliance with the

¹¹ 17 CFR 240.17Ad-22(e)(4)(vi)(A).

¹² 17 CFR 240.17Ad-22(e)(4)(iii).

requirements of Rules 17Ad-22(e)(4)(iii) and (vi)(A).¹³

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 Exchange Act¹⁴ 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 Exchange Act. While the proposed rule change could have an impact on certain Clearing Members, OCC does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with its current, most impactful Sufficiency Scenarios.¹⁵ OCC notes, however, that the results of these proposed scenarios may vary depending on the composition of each individual Clearing Member's portfolio at a given point in time. As a result, the proposed scenarios could from time to time result in more frequent or larger sufficiency stress test margin calls.

The implementation of the new Sufficiency Scenarios would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond

¹³ 17 CFR 240.17Ad-22(e)(4)(iii) and (vi)(A).

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

¹⁵ OCC has provided data and analysis concerning the proposed rule change in Confidential Exhibit 3 to SR-OCC-2020-015.

quickly when OCC believes additional financial resources are required. The proposed changes are designed to improve OCC's ability to measure, monitor and manage its credit exposures to its participants consistent with its regulatory requirements under Rule 17Ad-22 (e)(4).¹⁶ and to enhance OCC's ability to manage risks in its role as a systemically important financial market utility. Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's approved stress testing methodology using standard predetermined parameters and assumptions.¹⁷ The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020, which constitute a significant and relevant period of market stress and volatility. As noted above, OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with expectations and with OCC's current, most impactful Sufficiency Scenarios based on a reflection of current Clearing Member portfolio exposures.¹⁸ However, these scenarios provide diversification in terms of the shocks applied to individual names, which may result in meaningful differences if Clearing Member exposures change, and would help capture risks that OCC's current inventory of Sufficiency Scenarios might not capture in different market conditions. Accordingly, OCC believes that any impact on competition or OCC's Clearing Members would be necessary and appropriate in furtherance of the protection of investors and the public interest under the Act.

¹⁶ 17 C.F.R. 240.17Ad-22(e)(4).

¹⁷ See supra note 5.

¹⁸ See supra note 15.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Exchange 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)

OCC respectfully requests that the Commission approve the proposed rule change on an accelerated basis pursuant to Section 19(b)(2) of the Act.¹⁹ OCC believes that there is good cause for the Commission to accelerate effectiveness because the proposed changes are designed to improve OCC’s ability to measure, monitor and manage its credit exposures to its participants consistent with its regulatory requirements under Rule 17Ad-22(e)(4).²⁰ The proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly to collect additional financial resources from its Clearing Members if the Sufficiency Scenario exposures breach the predetermined thresholds established in OCC’s Rules and Clearing Fund Methodology Policy. The proposed stress

¹⁹ 15 U.S.C. 78s(b)(2).

²⁰ 17 C.F.R. 240.17Ad-22(e)(4).

scenarios are comprised of historical scenarios designed to represent recent market events from March 2020, including price shocks representing the most extreme market decline and rally moves in March 2020 and variations on these scenarios designed to account for specific-wrong way risk exposures. OCC believes implementation of the proposed Sufficiency Scenarios would promote the protection of investors and the public interest by enabling OCC to test the sufficiency of its prefunded financial resources against a recent and significant period of market volatility and enhancing OCC's ability to manage the risks it faces as a systemically important financial market utility.

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 3. Confidential Data and Analysis.

Exhibit 5. Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description.

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
Executive Director, Associate General Counsel

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-OCC-2020-015)

December __, 2020

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning the Implementation of New Sufficiency Scenarios in The Options Clearing Corporation's Stress Testing Inventory

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 2, 2020, 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 OCC would implement additional stress test scenarios designed to test the sufficiency of OCC's prefunded financial resources. The proposed changes to OCC's Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description ("Methodology Description") are included in Exhibit 5 of filing SR-OCC-2020-015. Material proposed to be added is underlined and material proposed to be deleted is marked in strikethrough text. All terms

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

with initial capitalization that are not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.³

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

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

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

(1) Purpose

Background

OCC performs daily stress testing using a wide range of scenarios, both hypothetical and historical,⁴ designed to serve multiple purposes.⁵ OCC's stress testing

³ OCC's By-Laws and Rules can be found on OCC's public website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

⁴ OCC's historical scenarios are intended to replicate historical events in current market conditions, which includes the set of currently existing securities, their prices, and volatility levels. These scenarios provide OCC with information regarding pre-defined reference points determined to be relevant benchmarks for assessing OCC's exposure to Clearing Members and the adequacy of its financial resources. OCC's hypothetical scenarios represent events in which market conditions change in ways that have not yet been observed. These hypothetical scenarios are derived using statistical methods (e.g., draws from estimated multivariate distributions) or created based on a mix of statistical techniques and expert judgment (e.g., a 15% decline in market prices and 50% increase in volatility).

⁵ On July 26, 2018, the Commission issued a Notice of No Objection to an advance notice by OCC concerning the adoption of a new stress testing and Clearing Fund

inventory contains scenarios designed to: (1) determine whether the financial resources collected from all Clearing Members collectively are adequate to cover OCC's risk tolerance ("Adequacy Scenarios"); (2) establish the monthly size of the Clearing Fund at an amount necessary to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure as a result of a 1-in-80 year hypothetical market event ("Sizing Scenarios"); (3) measure the exposure of the Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources to guard against potential losses under a wide range of stress scenarios, including extreme but plausible market conditions ("Sufficiency Scenarios"); and (4) monitor and assess the size of OCC's prefunded financial resources against a wide range of stress scenarios that may include newly developed stress scenarios for evaluation as well as extreme but implausible scenarios ("Informational Scenarios"). Adequacy and Informational Scenarios are not used directly to size the Clearing Fund or drive calls for additional financial resources from OCC's Clearing Members.

Pursuant to OCC Rule 609 and OCC's Clearing Fund Methodology Policy, if any of OCC's Sufficiency Scenarios identifies exposures that exceed 75% of the current

methodology. See Securities Exchange Act Release No. 83714 (July 26, 2018), 83 FR 37570 (August 1, 2018) (SR-OCC-2018-803) (Notice of No Objection to Advance Notice, as Modified by Amendments No. 1 and 2, Concerning Proposed Changes to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology). On July 27, 2018, the Commission approved a proposed rule change by OCC concerning the same proposal. See Securities Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855 (August 2, 2018) (SR-OCC-2018-008) (Order Approving Proposed Rule Change, as Modified by Amendments No. 1 and 2, Related to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology).

Clearing Fund requirement less deficits, OCC may require additional margin deposits from the Clearing Member Group(s) driving the breach. Additionally, pursuant to Rule 1001(c) and the Clearing Fund Methodology Policy, if a Sufficiency Scenario identifies a Clearing Fund draw for any one or two Clearing Member Groups that exceeds 90% of the current Clearing Fund size (after subtracting any monies deposited as a result of a margin call in accordance with a breach of the 75% threshold), OCC has the authority to reset the size of the Clearing Fund on an intra-month basis to ensure that it continues to maintain sufficient prefunded financial resources.

Proposed Change

OCC proposes to elevate four of its current Informational Scenarios to Sufficiency Scenarios. The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020. Specifically, the proposed scenarios would include price shocks representing the most extreme market decline and rally moves in March 2020 and would include variations on these scenarios designed to account for specific-wrong way risk exposures arising from cleared positions on issued exchange traded notes (“ETNs”).⁶ In their current status as Informational Scenarios, the March 2020 scenarios do not drive the size of the Clearing Fund or calls for additional

⁶ See Securities Exchange Act Release No. 87673 (December 6, 2019), 84 FR 67981 (December 12, 2019) (SR-OCC-2019-807) (Notice of No Objection To Advance Notice Related to Proposed Changes to The Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk) and Securities Exchange Act Release No. 87718 (December 11, 2019), 84 FR 68992 (December 17, 2019) (SR-OCC-2019-010) (Order Approving Proposed Rule Change Related to Proposed Changes to the Options Clearing Corporation's Rules, Margin Policy, Margin Methodology, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology To Address Specific Wrong-Way Risk).

resources. However, as Sufficiency Scenarios, they would be used to measure the exposure of OCC's Clearing Fund to the portfolios of individual Clearing Member Groups and determine whether any such exposure is sufficiently large as to necessitate OCC calling for additional resources in the form of margin or an intra-month re-sizing of the Clearing Fund. The proposed rule change would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are necessary. The proposed rule change would thereby improve OCC's ability to measure, monitor and manage its credit exposures to its participants and enhance OCC's ability to manage risks in its role as a systemically important financial market utility.

(2) Statutory Basis

OCC believes the proposed rule change is consistent with Section 17A of the Exchange Act⁷ and the rules thereunder applicable to OCC. Section 17A(b)(3)(F) of the Exchange Act⁸ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions and, in general, protect investors and the public interest. The proposed rule change would enhance OCC's framework for measuring, monitoring, and managing its credit risks. Specifically, the proposed rule change would enable OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly when OCC believes the collection of additional financial resources is necessary. The ability to appropriately size and test the sufficiency of

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

prefunded financial resources is critical to ensuring that OCC can continue to provide prompt and accurate clearance and settlement of securities and derivatives transactions in the event of a Clearing Member default and manage the risks associated with its role as a systemically important financial market utility. Accordingly, OCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.⁹

Rule 17Ad-22(e)(4)(iii).¹⁰ requires, in part, that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources (beyond those collected as margin) at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the participant family that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. Rule 17Ad-22(e)(4)(vi)(A).¹¹ further requires, in part, that such policies and procedures are reasonably designed to test the sufficiency of the covered clearing agency's total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(iii).¹² by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions. As described above, the proposed rule change would enable

⁹ Id.

¹⁰ 17 CFR 240.17Ad-22(e)(4)(iii).

¹¹ 17 CFR 240.17Ad-22(e)(4)(vi)(A).

¹² 17 CFR 240.17Ad-22(e)(4)(iii).

OCC to test the sufficiency of its prefunded financial resources under a wider range of stress scenarios and respond quickly to collect additional financial resources from its Clearing Members if the Sufficiency Scenario exposures breach the predetermined thresholds established in OCC's Rules and Clearing Fund Methodology Policy.

Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's existing Methodology Description using standard predetermined parameters and assumptions. As a result, OCC believes the proposed rule change is designed to further OCC's compliance with the requirements of Rules 17Ad-22(e)(4)(iii) and (vi)(A).¹³

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 Exchange Act¹⁴ 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 Exchange Act. While the proposed rule change could have an impact on certain Clearing Members, OCC does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with its current, most impactful Sufficiency Scenarios.¹⁵ OCC notes, however, that the results of these proposed scenarios may vary depending on the composition of each individual Clearing

¹³ 17 CFR 240.17Ad-22(e)(4)(iii) and (vi)(A).

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

¹⁵ OCC has provided data and analysis concerning the proposed rule change in Confidential Exhibit 3 to SR-OCC-2020-015.

Member's portfolio at a given point in time. As a result, the proposed scenarios could from time to time result in more frequent or larger sufficiency stress test margin calls.

The implementation of the new Sufficiency Scenarios would enable OCC to test the sufficiency of its financial resources under a wider range of relevant stress scenarios and respond quickly when OCC believes additional financial resources are required. The proposed changes are designed to improve OCC's ability to measure, monitor and manage its credit exposures to its participants consistent with its regulatory requirements under Rule 17Ad-22 (e)(4).¹⁶ and to enhance OCC's ability to manage risks in its role as a systemically important financial market utility. Moreover, the proposed Sufficiency Scenarios were constructed in accordance with OCC's approved stress testing methodology using standard predetermined parameters and assumptions.¹⁷ The proposed Sufficiency Scenarios are historical scenarios designed to represent recent market events from March 2020, which constitute a significant and relevant period of market stress and volatility. As noted above, OCC's analysis to date indicates that the proposed Sufficiency Scenarios generate stress test exposures that are generally in line with expectations and with OCC's current, most impactful Sufficiency Scenarios based on a reflection of current Clearing Member portfolio exposures.¹⁸ However, these scenarios provide diversification in terms of the shocks applied to individual names, which may result in meaningful differences if Clearing Member exposures change, and would help capture risks that OCC's current inventory of Sufficiency Scenarios might not

¹⁶ 17 C.F.R. 240.17Ad-22(e)(4).

¹⁷ See supra note 5.

¹⁸ See supra note 15.

capture in different market conditions. Accordingly, OCC believes that any impact on competition or OCC's Clearing Members would be necessary and appropriate in furtherance of the protection of investors and the public interest under the Act.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Exchange 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-2020-015 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-2020-015. 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 <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information

from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2020-015 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..¹⁹

Secretary

¹⁹ 17 CFR 200.30-3(a)(12).