THE FOUNDATION FOR SECURE MARKETS®

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June 13, 2023

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

Re: Rule Certification to Amend and Enhance the Options Clearing Corporation's Model Risk Management Policy

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, The Options Clearing Corporation ("OCC") hereby certifies a rule change concerning amendments and enhancements to reflect updates to OCC's Model Risk Management Policy. The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal has also been submitted to the Securities and Exchange Commission ("SEC") under Section 19(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 19b-4 thereunder. The change will not be implemented until OCC has obtained all necessary regulatory approvals.

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

Explanation and Analysis

The purpose of this rule certification is to amend and enhance OCC's Model Risk Management Policy [1]. The Model Risk Management Policy is included as confidential Exhibit A to this filing. All terms with initial capitalization that are not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.

Overview

This proposed change would make certain changes to OCC's Model Risk Management Policy ("MRM Policy" or "Policy") to enhance the manner in which OCC manages the risk models and methodologies used in connection with OCC's business. OCC's use of risk models exposes OCC to model risk. Model risk is the potential for adverse consequences from decisions based on

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1 This rule filing was submitted to the SEC under the Exchange Act and will not become effective until all necessary regulatory requirements to implement the proposed change have been satisfied.

incorrect or misused model outputs. For example, a model that is not managed properly could potentially cause OCC to over-collect or under-collect the appropriate amount of collateral to cover credit risk posed by Clearing Members. OCC notes that the MRM Policy is part of a broader framework regarding model risk management that is designed to further the appropriate design, validation, and operation of OCC's Risk Models.

Proposed Changes

The MRM Policy is designed to outline OCC's framework for managing model risk and to define the roles and responsibilities throughout the risk model and methodology lifecycle. As detailed further below, the proposed changes to the MRM Policy primarily include amendments designed to: (1) more comprehensively address risk methodologies rather than just the underlying risk models; (2) revise the roles and responsibilities of various individuals, groups, and departments with respect to OCC's managing of model risk; (3) reflect certain non-substantive changes, such as renaming certain policies and procedures; and (4) add a description of certain "Risk Applications" and "User Developed Applications" used by OCC.

Risk Methodologies

OCC proposes to modify the MRM Policy to more directly contemplate "Risk Methodologies" rather than just "Risk Models." As currently defined in the MRM Policy, a Risk Model refers to any quantitative method or approach that applies statistical, economic, financial, or mathematical theories, techniques, and/or assumptions to process inputs into quantitative estimates, forecasts, or projections and can also be a quantitative method with inputs that are qualitative or based on business judgment. As also currently defined in the MRM Policy, a Methodology refers to a collection of Risk Models that are used to estimate financial risk exposures.

OCC proposes to specify in the MRM Policy that Risk Models are integrated into "Risk Methodologies" to broaden and align OCC's internal model risk policies and procedures by the adoption of the more holistic and comprehensive Risk Methodologies framework consisting of a collection of components, related inputs and outputs, and potentially other tools and applications, as explained further below. Specifically, OCC proposes to replace the definition of Methodology with a definition of a "Risk Methodology," providing that a Risk Methodology is a collection of Risk Models and related inputs and outputs, which are used to estimate or compute a distinct aspect of OCC's credit (i.e., Clearing Fund and margin) and liquidity resources.[2] The purpose of expanding

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[2] Under OCC's current MRM Policy, Risk Models are further defined in specific contexts whereby the MRM Policy states that Risk Models are "credit risk models (i.e., Clearing Fund), and margin system and related models (i.e., STANS), and liquidity risk models." As part of the broader shift in this proposed rule change from a focus on individual Risk Models to Risk Methodologies, OCC proposes to incorporate these contexts into the definition of Risk Methodologies, providing that Risk Methodologies "are used to estimate or compute a distinct aspect of OCC's credit (i.e., Clearing Fund and margin) and liquidity resources." The proposed new definition of Risk Methodologies would capture all existing Risk Models that address OCC's credit, margin and liquidity resources.

the definition in this way is to facilitate a more holistic view of the relevant processes and calculations, as described in more detail below.

A Risk Methodology is therefore broader than a particular Risk Model because a Risk Methodology may include multiple constituent Risk Models, as well as any other inputs or outputs that may not be part of any one particular constituent Risk Model but that nonetheless contribute to the overarching Risk Methodology.[3] Because Risk Models typically do not operate in isolation, but rather as part of a broader Risk Methodology, OCC believes that expanding the MRM Policy to more comprehensively focus on Risk Methodologies would promote a more sound risk management framework. The proposed definition of Risk Methodology is designed to capture each of the constituent Risk Models of which the Risk Methodology is comprised as well as any other inputs or outputs that might be part of how OCC manages OCC's credit and liquidity resources. OCC believes that the proposed definition of Risk Methodology therefore takes a more holistic view toward the processes and calculations by which OCC manages risks arising in connection with the use of a Risk Model.

Accordingly, OCC proposes to modify references to Risk Models in the MRM Policy to instead refer to Risk Methodologies in describing the manner in which OCC governs model risk and in describing the roles and responsibilities of various OCC groups and departments under the Policy.[4] For example, rather than specifying that the design, theory, and logic of each Risk Model used by OCC shall take into consideration published literature and industry best practice, where it is available, the revised MRM Policy would provide that the design, theory, and logic of each Risk Methodology used by OCC will take into consideration published literature and industry best practice, where it is available. OCC notes that this proposed change to broaden the scope from Risk Models to Risk Methodologies would not modify OCC's processes with respect to any individual Risk Model. That is, OCC would continue to perform the same review of each individual Risk Model as it does today, but would now include a more comprehensive consideration of each Risk Model as part of a Risk Methodology as well as any calculations or inputs that may contribute to a Risk Methodology but that may not necessarily be part of a particular Risk Model.

<u>Roles and Responsibilities of OCC Departments</u>

OCC proposes to modify the descriptions of the roles and responsibilities of various OCC

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3 For example, as part of OCC's Margin Methodology, OCC considers the settlement obligations of both an individual Clearing Member as well as its affiliates that comprise a Clearing Member Group. <u>See</u> OCC Rule 609, Interpretation and Policies .01 (providing that OCC will consider the margin assets of a Clearing Member's affiliates in determining whether a Clearing Member's forecasted settlement obligations to OCC could exceed the liquidity resources available to OCC to satisfy such obligations). The calculation of the relevant assets of a Clearing Member's affiliates as part of a Clearing Member Group are not part of a particular Risk Model (<u>e.g.</u>, the quantitative method to determine intra-day margin obligations) but are an input to the broader OCC Margin Methodology.

4 The current MRM Policy does address Risk Methodologies by providing that OCC's Quantitative Risk Management department is required to describe each Risk Model Methodology in a Methodology document.

departments and groups that are referenced in the MRM Policy to account for the broadened scope of the MRM Policy to focus on Risk Methodologies rather than individual Risk Models. For example, under the current Policy, OCC's Quantitative Risk Management ("QRM") department is responsible for, among other things, monitoring the use and performance of Risk Models according to relevant procedures, maintaining risk tolerances and associated key risk indicators to measure and monitor risk models. Financial Risk Management ("FRM") is the parent department of which QRM is a part.[5] OCC proposes to modify the allocation of responsibility to instead provide that OCC's FRM department is responsible for the tasks currently performed by QRM, such as, among other things, monitoring the use and performance of Risk Methodologies according to relevant procedures and maintaining risk tolerances and associated key risk indicators to measure and monitor risk associated with Risk Methodologies.[6] While QRM has, and will continue to have, primary responsibility for individual Risk Models, OCC proposes to change the references from QRM to FRM to encompass the responsibilities of other departments within FRM that may have responsibility for an input or output that is not necessarily part of a particular Risk Model, but which is part of a Risk Methodology.[7] The particular responsibilities of each department within FRM depend on the particular Risk Methodology and the constituent Risk Models and any additional inputs or outputs, but all groups within FRM would be subject to the Policy.

In addition, OCC proposes to set forth the responsibilities of Model Risk Management ("MRM") under the Policy with respect to Risk Methodologies. For example, MRM is currently responsible under the MRM Policy for, among other things, validating all Risk Models prior to implementation and evaluating the performance of each Risk Model by performing independent model validations, in each case in accordance with relevant procedures. As proposed, the MRM Policy would instead provide that MRM is responsible for, among other things, validating all Risk Models and Methodologies (including any changes to Risk Methodologies) prior to implementation and also for evaluating the performance of each Risk Model by performing independent model validations in each case in accordance with relevant procedures. Additionally, currently under the MRM Policy, the Executive Director of MRM is responsible for developing and maintaining the

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5 FRM includes, in addition to QRM, OCC's Credit Risk Management, Market Risk and Default Management, Pricing and Margins, Stress Testing and Liquidity Management departments.

6 OCC also proposes certain other non-substantive changes to the MRM Policy intended to provide greater clarity. For example, currently the MRM Policy specifies that the Chief Financial Risk Officer ("CFRO") (or his or her delegate) shall review and, if appropriate, approve Risk Model documentation. OCC proposes to revise the description by removing the reference to delegate and adding that these functions are performed by following OCC's Risk Methodology Documentation Procedure. OCC does not intend this outcome to result in any substantive change in the roles and responsibilities related to documentation of Risk Methodologies (other than the scope expanding from Risk Models to Risk Methodologies). Moreover, OCC's Risk Methodology Documentation Procedure establishes that the CFRO (or the CFRO's delegate) retains the same responsibilities for Risk Model and Risk Methodology documentation. As a result, OCC believes that OCC's policies and procedures will continue to ensure clear and direct lines of responsibility.

7 OCC proposes that all references to QRM would be changed to FRM to account for the broadened scope from Risk Models to Risk Methodologies with the exception that the MRM Policy would continue to specify that QRM is responsible for the review of "Assessment Reports," which are conclusions drawn from a review of individual Risk Model performance, parameters, and assumptions.

Annual Model Validation Plan. As proposed, the MRM Policy would provide that the head of MRM[8] develops and maintains the, now renamed, Annual Validation Plan ("Annual Plan")[9] and schedule for all in-use Risk Methodologies, including Risk Models.[10] As proposed, there would be no change to the Annual Plan, other than that it would now encompass Risk Methodologies more broadly—rather than just individual Risk Models.

OCC also proposes to provide some additional description of MRM's role by specifying that MRM independently validates all Risk Methodologies in accordance with the Methodology and Model Validation Procedure and the Methodology and Model Performance Monitoring Procedure, which includes reviewing the performance of each Risk Methodology and verifying the software is implemented as intended. As proposed, the MRM Policy would further specify that validation results, including any conclusions, are documented in validation reports, and are reviewed with FRM. These changes do not substantively alter the roles and responsibilities of MRM other than with respect to the expanded scope of assessing Risk Methodologies rather than just Risk Models. Instead, the changes are intended to provide greater specificity regarding MRM's current functions under the MRM Policy.

OCC also proposes to make non-substantive changes to the description of the roles and responsibilities of OCC's Model Risk Working Group ("MRWG"). The MRWG is generally responsible for, among other things, assisting OCC's Management Committee in overseeing and governing OCC's model-related risk issues, reviewing and, if appropriate, approving new Risk Models, material changes to Risk Models, and proposals for decommissioning Risk Models prior to submission to OCC's Management Committee for review.[11] Under the current MRM Policy, the MRWG consists of representatives from QRM, FRM, MRM, and OCC's Corporate Risk Management department. As proposed, the MRWG would consist of representatives from FRM and OCC's Corporate Risk Management department. OCC notes that the same groups would be

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8 The current title of the head of MRM is the "Managing Director, Model Risk Management," rather than the "Executive Director." As titles may change over time, OCC proposes to simply refer to "the head of MRM" rather than specifying the precise title of the current head of MRM at this time.

9 OCC also proposes to make clear in a footnote to the MRM Policy that the term "annual" means "12 months, or 365 days."

10 Similarly, the current MRM Policy specifies that the Executive Director of MRM has qualified staff with the expertise to perform model validations in accordance with relevant procedures and that MRM personnel shall be independent from and not report to OCC business areas involved in the development, implementation and operation of Risk Models. Under this proposed rule change, the MRM Policy would provide that the head of MRM maintains qualified personnel to perform validations in accordance with relevant procedures and that such MRM personnel are independent from OCC business areas involved in the development, implementation and operation of Risk Methodologies.

11 As proposed, to account for the expansion of the MRM Policy to address Risk Methodologies rather than just Risk Models, this description of the MRWG's role would be amended to provide that, pursuant to the Model Risk Working Group Procedure, the MRWG reviews and, if appropriate, approves all new Risk Methodologies, changes to Risk Methodologies, and proposals for decommissioning Risk Methodologies prior to submitting to the Management Committee for review and approval.

represented as part of the MRWG, only under different names. For example, QRM is already part of FRM (as explained above), so references to FRM already include QRM. Similarly, the Corporate Risk Management department includes MRM. Pursuant to the MRWG Procedure, a representative of each of the subgroups within FRM and the Corporate Risk Management department that are currently part of the MRWG would continue to be represented as part of the MRWG. The MRWG would consequently consist of representatives from all of the same groups as under the current MRM Policy, and the MRWG's functions would remain substantively the same.

Other Non-Substantive Changes

OCC proposes to delete Part VI of MRM Policy, which sets forth the meaning of certain defined terms in the Policy, such as the terms "Methodology," "Risk Model," "Model Inventory," "Material Change," "Model Risk," and "Risk Model Defect." Certain of these terms, such as "Risk Model" are already defined in the body of the MRM Policy, and OCC does not propose any substantive change to these defined terms.[12] OCC proposes to delete the term "Methodology" from the MRM Policy and replace such term with "Risk Methodology," as explained above, and set forth such new definition in the body of the MRM Policy. OCC proposes to delete the term "Risk Model Defect"[13] because such term is not used in the body of the MRM Policy, and the concept of a Risk Model Defect is captured under the concept of "observations" or "conclusions" arising from various reviews and validations of Risk Models and Risk Methodologies.[14] OCC proposes to delete the definition of a "Material Change" because OCC believes that all changes to Risk Models and Risk Methodologies should be subject to the oversight processes outlined in the MRM Policy, rather than only those that might be considered "material." OCC also proposes to delete the definition of "Independent Model Validation," which is currently defined as evaluation of the performance of a Risk Model performed by a qualified person who is free from influence from the persons responsible for the development or operation of the models being validated. OCC believes that this change is not substantive because the MRM Policy, as proposed, would provide that MRM is responsible for independent model validations and that MRM personnel[15] performing such validations are

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[12] This is also true with respect to the definition of "Model Risk," which is currently defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs. While OCC proposes to delete this defined term, this related description is preserved in the opening paragraph of the MRM Policy.

[13] The term "Risk Model Defect" is currently defined as an error, flaw, failure or fault in a computer program or system that causes a Risk Model to produce an incorrect or unexpected result, or to behave in unintended ways.

[14] Similarly, OCC proposes to delete the defined term "Decommissioned Model," which is currently defined as a Risk Model that has been approved by OCC's Risk Committee to no longer be used to estimate OCC's margin or clearing fund exposures. Such term is not currently used in the body of the MRM Policy. OCC is not proposing any substantive changes to the manner in which a Risk Model or Risk Methodology may be decommissioned under this proposed rule change. OCC also proposes to delete the definition of "Model Inventory," referring to OCC's data base of in-use Risk Models and Risk Methodologies because references to OCC's Risk Model and Risk Methodology Inventory are self-explanatory.

[15] As noted above, under the proposed rule change, the head of MRM is responsible for maintaining "qualified staff with the requisite knowledge, skills, and expertise to perform validations" pursuant to relevant procedures. See infra n.11. As a result, the component of the "Independent Model Validation" referring to model

independent from, do not report to, and are otherwise free from influence from OCC business areas involved in the development, implementation and operation of Risk Methodologies.[16]

OCC also proposes certain changes to the names of procedures mentioned in the MRM Policy. For example, the MRM Policy currently refers in certain places to the "Risk Model Development Procedure," the "Model Implementation Procedure," and the "Model Validation Procedure."[17] The Risk Model Development Procedure and Model Implementation Procedure have been merged into a single procedure. It is referred to as the "Risk Methodology Development and Implementation Procedure" to reflect the expanded scope of covering Risk Methodologies rather than just Risk Models. Similarly, the "Model Validation Procedure" has been modified for the same reason to refer to the "Methodology and Model Validation Procedure."

In certain other places within the MRM Policy, OCC proposes to modify references to certain specific procedures. Specifically, the MRM Policy currently specifies that QRM monitors the use and performance of Risk Models according to OCC's Model Backtesting Procedures, the Business Backtesting Procedure, and the Margin Model Parameter Review and Sensitivity Analysis Procedure. OCC proposes to add to this list that this also includes other "related policies and procedures," and note that these additional related policies and procedures relate to OCC's Clearing Fund Methodology Policy, Liquidity Risk Management Framework and Margin Policy. OCC proposes to add "and related policies and procedures" because there are a number of additional policies or procedures (over 20) not specifically enumerated in the MRM Policy that OCC believes should be generally referenced in the MRM Policy given their relevance to Risk Methodology monitoring functions.

Finally, OCC also proposes to make non-substantive amendments to streamline the description of the Management Committee's annual review and approval of any changes to MRM

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validations being performed by a "qualified person" would be preserved to ensure that model validations are performed by qualified individuals.

16 OCC also proposes to change references in the MRM Policy to "findings" (e.g., findings from Risk Model or Risk Methodology validations) to instead refer to these items as "observations." The purpose of this change is to avoid confusion with the use of the term "findings" in other OCC policies and procedures, such as in respect of regulatory findings or internal audit findings. But there would be no substantive change in any of the roles or responsibilities of the relevant OCC personnel with respect to Risk Model and Risk Methodology validation and performance monitoring. Relatedly, OCC also proposes to change the current reference to its "Model Findings Management Procedure" and its "Model Risk Management Findings Dashboard" to the "Model Risk Observations Management Procedure" and the "Model Risk Management Observations Dashboard" respectively.

f17 Similarly, OCC proposes to modify references to "Model Assessment Reports" to refer to just "Assessment Reports" in light of the broadened scope to capture Risk Methodologies rather than just "Risk Models." Additionally, OCC proposes to change references to the Risk Model Documentation Procedure to the Risk Methodology Documentation Procedure.

Policy.[18]

Risk Applications

OCC also proposes to add a description of "Risk Applications" to the MRM Policy. Risk Applications are tools with advanced quantitative or mathematical techniques that (a) apply to statistical, economic, or financial theories, and/or assumptions to process inputs into quantitative estimates, forecasts, or projections, and (b) do not have direct impact on OCC's margin, credit, or liquidity resources. OCC proposes to amend the MRM Policy to further specify that the Risk Application governance processes are outlined in the Risk Application Management Procedure and that, as part of this governance, MRM performs validations of the Risk Applications to verify the conceptual soundness of the Risk Application against its intended use, documented in validation reports, and that observations from such validations are addressed according to OCC's Model Risk Observation Management Procedure. OCC proposes to include mention of Risk Applications, which are used by OCC today, in the MRM Policy so that the MRM Policy describes these additional tools that are complementary to OCC's Risk Model and Risk Methodology management oversight. As noted, Risk Applications are tools that apply to processes (e.g., estimates, projections) that do not have a direct impact on OCC's margin, credit, or liquidity resources. As a result, Risk Applications do not directly impact Risk Models or Risk Methodologies, but are nonetheless related to OCC's processes for managing potential model risk.

Similarly, OCC also proposes to amend the MRM Policy to provide that OCC utilizes User Developed Applications ("UDAs"), which are analytical applications designed to manipulate and analyze data that are used on a repetitive basis and might expose OCC to Model Risk. OCC also proposes to specify in the MRM Policy that UDAs are subject to governance processes outlined in OCC's User Developed Application (UDA) Management Procedure. Similar to Risk Applications, UDAs do not have a direct impact on OCC's Risk Models or Risk Methodologies, but reflect tools used by OCC to manage potential risks arising from routine calculations or data analysis performed by OCC.

Consistency with DCO Core Principles

OCC reviewed the DCO core principles ("Core Principles") as set forth in the Act, the regulations thereunder, and the provisions applicable to a DCO that elects to be subject to the

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18 Currently, the MRM Policy specifies that OCC's Management Committee shall review and approve the Policy on an annual basis and recommend approval of the Policy to the Risk Committee and that the Management Committee also shall review and approve any material changes to the Model Risk Management Policy and recommend further approval to the Risk Committee. As proposed, the MRM Policy would provide that the Management Committee reviews and approves any changes to the Model Risk Management Policy annually and recommends further approval to the Risk Committee.

provisions of 17 CFR Subpart C ("Subpart C DCO"). During this review, OCC identified the following as potentially being impacted:

Risk Management. OCC believes that the proposed rule changes are consistent with Core Principle D,[19] which requires, among other things, that a DCO shall have an enterprise risk management program that identifies and assesses sources of risks and their potential impact on the operations and services of the DCO such that the DCO shall, measure, monitor, and manage identified sources of risk on an ongoing basis, and further requires a DCO to establish and maintain written policies and procedures, approved by its board of directors or a committee of the board that establish an appropriate enterprise risk management framework, reviewed at least annually and updated as necessary. OCC believes that the proposed amendments to the MRM Policy, which are primarily designed to expand the scope of the MRM Policy to more directly govern Risk Methodologies (i.e., a collection of Risk Models) rather than Risk Models individually, would help to ensure that OCC maintains policies and procedures that are reasonably designed to provide for a robust model risk management framework, which in turn promotes the protection of investors and the public interest. In particular, because Risk Models typically do not operate in isolation, but rather as part of a broader Risk Methodology, OCC believes that expanding the MRM Policy to more comprehensively focus on Risk Methodologies would promote a more sound risk management framework, consistent with the regulations. OCC believes that a more holistic approach would help to ensure that potential sources of model risk that may not have been formally subject to the MRM Policy are now subject to the MRM Policy, which in turn can further support the stability of the broader financial system and relevant public interest considerations of clearing members and their customers, who benefit from more sound risk management frameworks for DCO's. OCC notes that under the proposed rule change, the MRM Policy would continue to be reviewed on a periodic basis and reviewed by OCC's Board annually.

Governance. OCC believes that implementing the proposed changes are consistent with Core Principle O,[20] and CFTC Regulation 39.24 thereunder which requires, in pertinent part, each DCO to have governance arrangements that, among other things, are written, clear and transparent, and place a high priority on the safety and efficiency of the DCO, and explicitly support the stability of the broader financial system and other relevant public interest considerations of clearing members, customers of clearing members, and other relevant stakeholders. In addition, a DCO's governance arrangement must include clear and direct lines of responsibility and accountability, and clearly specify the roles and responsibilities of management. OCC believes that the proposed changes to the MRM Policy are consistent with the requirements of Core Principle O, because they are designed to prioritize the safety and efficiency of OCC and support the public interest requirements by helping to ensure that Risk Methodologies are reviewed holistically to evaluate potential model risk rather than evaluating model risk for Risk Models on a more individual basis. While OCC's current processes under the MRM Policy do contemplate the evaluation of Risk Methodologies, OCC believes that the proposed changes will better facilitate a review of Risk

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[19] 7 U.S.C. 7a-1(c)(2)(D).

[20] 7 U.S.C. 7a-1(c)(2)(O).

Methodologies in their entirety, which OCC believes helps prioritize the safety and efficiency of OCC by addressing additional potential sources of model risk that may not have previously been directly subject to the MRM Policy. The safe and efficient management of risks related to the sufficiency of OCC's credit, margin, and liquidity resources—including arising from Risk Models and Risk Methodologies used to calculate and manage such risks—is necessary to allow OCC to effectively and continuously carry out its core clearing functions (such as transferring record ownership and safeguarding securities and funds). OCC notes that its current processes for reviewing Risk Models on an individual basis will not change under the proposed rule change, but will now encompass more directly a broader review of Risk Methodologies.

In addition, OCC believes the proposed changes to describe the roles and responsibilities of different groups and departments (e.g., changing references from QRM to FRM) under the MRM Policy are also consistent with Core Principle O because they would specify clear and direct lines of responsibility among OCC personnel with responsibilities under the MRM Policy and would reflect internal organizational changes within OCC As described above, FRM encompasses different departments, including QRM, that collaborate with each other and that are tasked with responsibility for managing the Risk Methodology framework subject to the MRM Policy. QRM has and will continue to have primary responsibility for individual Risk Models, however, references in the MRM Policy would be changed to FRM to reflect that other departments within FRM may have responsibility for an input or output that is part of a Risk Methodology but not necessarily part of a Risk Model. This structure allows the processes related to Risk Models and Risk Methodology components to be aligned and managed under the one organizational umbrella of FRM, which in turn better addresses sources of model risk from a holistic perspective. The proposed changes in certain roles and responsibilities of different groups, such as providing that MRM is responsible for validating Risk Methodologies (including any changes to Risk Methodologies) prior to implementation, clearly and transparently reflects FRM's broadened scope of responsibility for the Risk Methodology framework. Moreover, the approach results in OCC having a coordinated strategy for managing the Risk Methodology framework and its components. None of the proposed changes, however, would change the CFRO's role or supervisory responsibility regarding all FRM's departments or change QRM's specific responsibilities for Risk Models.

For these reasons, OCC believes that the proposed changes are consistent with the requirements of the DCO Core Principles and the CFTC Regulations thereunder.

Opposing Views

No substantive opposing views were expressed related to the rule amendments by OCC's Board members, Clearing Members or market participants. Public comments on the proposed rule change filed with the SEC, if any, and any OCC response to such comments may be viewed on the SEC's public website.[21]

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21 See Options Clearing Corporation (OCC) Rulemaking, https://www.sec.gov/rules/sro/occ.htm.

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 this certification on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Exhibit A 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,

/s/ Hafez A. Almiladi
Hafez A. Almiladi
Assistant General Counsel
The Options Clearing Corporation

Enclosure: Exhibit A