insufficient in the event of a Clearing Member default consistent with Rules 17Ad–22(e)(4)(iii) and (vi).[35]

Rule 17Ad–22(e)(4)[36] generally requires 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. By prohibiting Clearing Members from lending Eligible Stock issued by the Clearing Member or any affiliate of such Clearing Member, OCC would mitigate the SWWR that currently exists in its Stock Loan Programs and thereby reduce the risk that OCC's financial resources would be insufficient in the event such a Clearing Member would default. OCC believes the proposed change is therefore reasonably designed to help OCC manage the credit risks associated with SWWR Equity and SWWR ETN positions in the Stock Loan Programs and is therefore consistent with Rule 17Ad–22(e)(4).[37]

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date the proposed change was filed with the Commission or (ii) the date any additional information requested by the Commission is received. OCC shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

OCC shall post notice on its website of proposed changes that are implemented. The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the advance notice is consistent with the Clearing Supervision 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 email to *rule-comments@sec.gov.* Please include File Number SR–OCC–2019–807 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–OCC–2019–807. This file number should be included on the subject line if email 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 advance notice that are filed with the Commission, and all written communications relating to the advance notice 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 the filing also will be available for inspection and copying at the principal office of the self-regulatory organization.

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–2019–807 and should be submitted on or before November 27, 2019.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2019–24549 Filed 11–8–19; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–87475; File No. SR–OCC–2019–806]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Advance Notice Related to Proposed Changes to The Options Clearing Corporation's Rules, Clearing Fund Methodology Policy, and Clearing Fund and Stress Testing Methodology

November 6, 2019.

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled Payment, Clearing and Settlement Supervision Act of 2010 (''Clearing Supervision Act'')[1] and Rule 19b–4(n)(1)(i)[2] under the Securities Exchange Act of 1934 (''Exchange Act'' or ''Act''),[3] notice is hereby given that on October 10, 2019, the Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission'') an advance notice as described in Items I, II and III below, which Items have been prepared by OCC. The Commission is publishing this notice to solicit comments on the advance notice from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This advance notice is submitted in connection with proposed enhancements to OCC's Clearing Fund and stress testing rules and methodology designed to: (1) Incorporate a new set of stress test scenarios to be used in the monthly sizing of OCC's Clearing Fund that are designed to capture the risks of extreme moves in individual or small subsets of securities; (2) enhance OCC's stress testing methodology for modeling certain volatility index futures; (3) modify OCC's methodology for allocating Clearing Fund contribution requirements to standardize the margin risk component of the allocation formula for all Clearing Members; (4) adopt an additional threshold for notifying senior management of intra-

[35] *Id.*

[36] 17 CFR 240.17Ad–22(e)(4).

[37] *Id.*

[1] 12 U.S.C. 5465(e)(1).

[2] 17 CFR 240.19b–4(n)(1)(i).

[3] 15 U.S.C. 78a *et seq.*

day margin calls based on certain stress test results; (5) correct certain rules concerning OCC's cooling-off period and replenishment/assessment powers; and (6) make other clarifying and conforming changes to OCC's Rules, Clearing Fund Methodology Policy (''Policy''), and Stress Testing and Clearing Fund Methodology Description (''Methodology Description'').

The proposed amendments to OCC's Rules can be found in Exhibit 5A. Proposed changes to the Policy can be found in Exhibit 5B. Proposed changes to the Methodology Description can be found in Exhibit 5C. Material proposed to be added to the Rules, Policy, and Methodology Description as currently in effect is marked by underlining, and material proposed to be deleted is marked in strikethrough text.[4]

The advance notice is available on OCC's website at *https://www.theocc.com/about/publications/bylaws.jsp.* 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.[5]

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the advance notice and discussed any comments it received on the advance notice. 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 and B below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement on Comments on the Advance Notice

Written comments were not and are not intended to be solicited with respect to the advance notice and none have been received. OCC will notify the Commission of any written comments received by OCC.

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

Description of the Proposed Change

Background

In September 2018, OCC implemented new rules for sizing and monitoring its Clearing Fund and overall Pre-Funded Financial Resources,[6] which included the adoption of a new Policy and Methodology Description.[7] Under the requirements of the Policy, OCC bases its determination of the Clearing Fund size on the results of stress tests conducted daily using standard predetermined parameters and assumptions. These daily stress tests consider a range of relevant stress scenarios and possible price changes in liquidation periods, including but not limited to: (1) Relevant peak historic price volatilities; (2) shifts in other market factors including, as appropriate, price determinants and yield curves; and (3) the default of one or multiple Clearing Members. OCC also conducts reverse stress tests for informational purposes aimed at identifying extreme default scenarios and extreme market conditions for which the OCC's financial resources may be insufficient.

As described in the Methodology Description, the newly adopted methodology includes two types of scenarios: ''Historical Scenarios'' and ''Hypothetical Scenarios.'' Historical Scenarios intend 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. Hypothetical Scenarios represent events in which market conditions change in ways that have not yet been observed. The 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). These scenarios give OCC the ability to change the distribution and level of stress in ways necessary to produce an effective forward-looking stress testing methodology. OCC uses these pre-determined stress scenarios in stress tests, conducted on a daily basis, to determine OCC's risk exposure to each Clearing Member Group by simulating the profits and losses of the positions in their respective account portfolios under each such stress scenario.

Under the Policy and Methodology Description, OCC performs daily stress testing using a wide range of scenarios, both Hypothetical and Historical, designed to serve multiple purposes. OCC's proposed 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,'' and such scenarios collectively constituting ''Adequacy Stress Tests''); (2) establish the monthly size of the Clearing Fund necessary for OCC to maintain sufficient Pre-Funded Financial Resources to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure to OCC as a result of a 1-in-80 year hypothetical market event (''Sizing Scenarios,'' and such scenarios collectively constituting ''Sizing Stress Tests''); (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 so that OCC continues to maintain sufficient financial resources to guard against potential losses under a wide range of stress scenarios, including extreme but plausible market conditions (''Sufficiency Scenarios,'' and such scenarios collectively constituting ''Sufficiency Stress Tests''); [8] and (4) monitor and assess the

[4] OCC also has filed a proposed rule change with the Commission in connection with the proposed changes. *See* SR–OCC–2019–009.

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

[6] The Policy defines OCC's ''Pre-Funded Financial Resources'' to mean margin of the defaulted Clearing Member and the required Clearing Fund less any deficits, exclusive of OCC's assessment powers.

[7] 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). 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).

[8] Under OCC Rule 609, the Policy, and the Methodology Description, if a Sufficiency Stress Test identifies exposures that exceed 75% of the current Clearing Fund requirement less deficits (the ''75% threshold'' or ''Sufficiency Stress Test Threshold 1''), OCC may require additional margin deposits from the Clearing Member Group(s) driving the breach. All such margin calls must be approved by a Vice President (or higher) of OCC's Financial Risk Management department (''FRM''); however, if the margin call imposed on an individual Clearing Member exceeds $500 million, OCC's Stress Testing and Liquidity Risk Management group (''STLRM'') must provide written notification to OCC's Executive Chairman, Chief Executive Officer, and Chief Operating Officer (collectively referred to as the ''Office of the Chief Executive Officer'' or ''OCEO''). Additionally, under Rule 1001(c) (and as described in the Policy and Methodology Description), if a Sufficiency Stress Test were to identify a Clearing Fund Draw for any one or two Clearing Member Groups that exceed 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 Sufficiency Stress Test Threshold 1), OCC has the authority to effect an intra-month resizing of the

Continued

size of OCC's Pre-Funded Financial Resources against a wide range of stress scenarios that may include extreme but implausible and reverse stress testing scenarios (''Informational Scenarios,'' and such scenarios collectively constituting ''Informational Stress Tests'').[9]

In addition, under the Rules, Policy, and Methodology Description, individual Clearing Members' Clearing Fund contribution requirements are determined using a risk-based allocation methodology of 70% ''total risk,'' 15% volume, and 15% open interest using a one-month look-back period. For purposes of allocating Clearing Fund contributions, ''total risk'' is defined to mean the margin requirement calculated and reported by OCC with respect to all accounts of a Clearing Member less the net asset value of the positions in such accounts aggregated across all such accounts.

Proposed Changes

OCC proposes to enhance its Clearing Fund and stress testing framework by: (1) Adopting a new set of stress scenarios to be used in the monthly sizing of OCC's Clearing Fund that are designed to capture the risks of extreme moves in individual or small subsets of securities (''Idiosyncratic Scenarios''); (2) improving its model for determining price shocks for futures on the Cboe Volatility Index (''VIX'')[10] (such futures contracts hereinafter referred to as ''VIX futures''); (3) modifying the methodology for allocating Clearing Fund contribution requirements to standardize the margin risk component of the allocation formula for all Clearing Members; (4) adopting an additional threshold for notifying senior management of certain intra-day margin calls based on Sufficiency Stress Test results; (5) correcting certain rules concerning OCC's cooling-off period and replenishment/assessment powers; and (6) making certain other clarifying and conforming changes to OCC's Rules, Policy, and Methodology Description. The proposed changes are described in detail below.

1. Introduction of Idiosyncratic Scenarios in Sizing Stress Tests

OCC proposes to revise its Policy and Methodology Description to incorporate into its inventory of Sizing Stress Tests a new set of Idiosyncratic Scenarios that are designed to capture the risks of extreme moves in individual or small subsets of securities. As noted above, OCC's Sizing Stress Tests are used to establish the monthly size of the Clearing Fund necessary for OCC to maintain sufficient Pre-Funded Financial Resources to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure to OCC in extreme but plausible market conditions. The proposed Idiosyncratic Scenarios would supplement OCC's current set of Sizing Scenarios (which are generally designed to estimate risk exposures arising from more broad-based market and systemic shocks (''Systemic Scenarios'') and would allow OCC to identify forward-looking, non-systemic market events that may impact its Pre-Funded Financial Resource requirements. Like other Sizing Scenarios, the proposed Idiosyncratic Scenarios may be used to determine the monthly size of Clearing Fund when projected exposures from the Idiosyncratic Scenarios are greater than OCC's other Sizing Scenarios.

The proposed Idiosyncratic Scenarios are designed to capture the risk of extreme non-systemic market moves on single-name securities through individual rally and decline shocks. Under the proposed methodology for Idiosyncratic Scenarios, every single-name equity (*i.e.,* excluding exchange-traded funds, exchange-traded notes, indices, and non-equity products) in a portfolio is shocked by a fixed extreme idiosyncratic up and down move. In order to determine these fixed shocks, single-name equities would be classified as either large or small capitalization (referred to herein as ''large cap'' and ''small cap,'' respectively) and the shocks would be constructed based on the market capitalization classification and direction of the price (*e.g.,* the four potential idiosyncratic moves would be large cap up, large cap down, small cap up, and small cap down. The fixed price shocks would be calibrated from historical price return data such that the probability of the idiosyncratic moves is comparable to OCC's Systemic Sizing Scenarios and the probability in all four scenarios would be approximately equal. The profit and loss (P/L) contribution for each name is then calculated for the portfolio using both up and down moves, and the worst loss from the two P/L moves is chosen as the direction of the idiosyncratic move for each name. Next, the four names with the worst P/L (along with the direction of extreme move) are chosen for the portfolio, providing the four names for every portfolio within a Clearing Member Group. Then the risk exposure (P/L) is aggregated at the Clearing Member Group-level using each set of four names. The worst shortfall generated is the idiosyncratic risk of the Clearing Member Group, and the largest two Clearing Member Group exposures are used to determine the Cover 2 Idiosyncratic Scenario Clearing Fund size.

OCC believes that implementing the proposed Idiosyncratic Scenarios would enhance OCC's stress testing methodology and overall resiliency by providing a more comprehensive suite of Sizing Stress Tests to ensure that OCC maintains an appropriate level of Pre-Funded Financial Resources to cover its credit exposures under scenarios addressing both systemic market risks and idiosyncratic risks.

2. Enhancements for Modeling Shocks on VIX Futures

OCC also proposes to enhance its methodology for modeling price shocks for VIX futures. Under OCC's current stress testing methodology, prices shocks for VIX futures are equivalent to the price shock for the underlying VIX index. OCC believes that this approach is unrealistic in that it produces a uniform shock across expirations of the VIX futures contract, which leads to an overestimation of VIX futures price shocks, particularly in market decline scenarios. Futures contracts for different expirations generally trade at different prices reflecting the differing future price expectations of the underlying asset.[11] Accordingly, OCC believes that the size of the price shocks produced by its stress testing methodology should vary based on the expiration of each contract as is more realistically observed in the market.

OCC proposes to enhance its stress testing methodology (and specifically, Section 3.4 of the Methodology Description) by using SPX at-the-money implied volatility shocks across different expirations to model forward volatility to generate shocks for VIX

Clearing Fund to ensure that it continues to maintain sufficient prefunded financial resources. *See supra* note 7.

[9] OCC notes that its Adequacy and Informational Stress Tests are not used to size the Clearing Fund or drive calls for additional financial resources.

[10] The VIX is an index designed to measure the 30-day expected volatility of the Standard & Poor's 500 index (''SPX'').

[11] When there is a large shock to the VIX it has consistently been observed that the change in price of near-term VIX future contracts is much larger than for further out expirations. For instance, on 2/5/2018 when the near-term VIX future contract expiring on 2/16/2018 increased by 113% the following standard expirations increased by less: 87% for 3/21/2018; 64% for 4/18/2018; 37% for 5/16/2018; and less than 30% for all further expirations. For all other days within the past 5 years with one-day VIX increases of over 45%, similar patterns were observed of a decreasing VIX future term structure of shocks (8/21/2015, 8/24/2015, 6/24/2016 and 5/17/2017).

futures contracts for the corresponding expirations. OCC believes the proposed model enhancements would produce more appropriate VIX futures price shocks in its stress scenarios because it would produce differing price shocks across the term structure as is generally observed in the market.[12] For example, OCC has observed that VIX futures price shocks obtained from the enhanced model for varying expirations is similar to the actual VIX futures market prices when tested on historical stress periods. Additionally, because VIX futures are used to calculate theoretical values for VIX options, OCC believes the proposed enhancement would improve the pricing of both VIX futures and VIX options in OCC's stress testing methodology.

3. Modifications to Clearing Fund Allocation Weighting Methodology

OCC proposes to modify its allocation methodology for determining individual Clearing Members' Clearing Fund requirements. As part of OCC's recently adopted stress testing and Clearing Fund methodology, OCC moved to a more risk-based method for allocating Clearing Fund requirements.[13] Clearing Fund allocations are currently based on a weighting of 70% margin risk, 15% open interest, and 15% cleared volume. The margin risk component of the allocation formula, known as ''total risk,'' is based on the total margin requirement calculated and reported by OCC with respect to all accounts of a Clearing Member less the net asset value of the positions in such accounts aggregated across all such accounts over a one-month look-back period compared to the aggregate of total risk across all Clearing Members.[14] While the majority of margin requirements used in the allocation formula are STANS-based margin requirements,[15] certain Clearing Members' accounts (and thus their allocations) are more heavily impacted by margin requirements calculated using the Standard Portfolio Analysis of Risk Margin Calculation System (''SPAN'') that reflects customer gross margining, which may result in higher risk charges than net margining with STANS for the same account.[16]

OCC proposes to standardize the margin or ''total risk'' component of its Clearing Fund allocation formula for all members by using only the STANS base amount, plus certain add-on charges [17] as may be determined by OCC pursuant to its policies and procedures. OCC believes it is more appropriate to use the same margin risk measurement for all Clearing Members/accounts when determining Clearing Fund allocations since this allows for a more equitable comparison across all accounts through the utilization of a consistent margin methodology. Accordingly, OCC proposes to modify the definition of ''total risk'' in Rule 1003(b)(i) to mean ''a risk measure aggregated across all accounts of a Clearing Member determined using the Corporation's margin methodology and such add-on charges as may be determined pursuant to the Corporation's policies and procedures.'' OCC also proposes to make conforming to changes to its Policy and Methodology Description to reflect the new definition of ''total risk.''

4. New Sufficiency Stress Test Notification Threshold

OCC also proposes to adopt a new internal notification threshold for intra-day margin calls resulting from its Sufficiency Stress Tests. Under existing Rule 609, the Policy, and the Methodology Description, if a Sufficiency Stress Test identifies a Clearing Fund Draw [18] for any one or two Clearing Member Groups that exceeds Sufficiency Stress Test Threshold 1, OCC is authorized to issue a margin call against the Clearing Member Group(s) and/or Clearing Member(s) causing the breach.[19] All Sufficiency Stress Test margin calls are required to be approved by a Vice President (or higher) of FRM; however, if the margin call imposed on an individual Clearing Member exceeds $500 million, the STLRM group must provide written notification to the Office of the CEO. If the margin call imposed on an individual Clearing Member would exceed 100% an individual Clearing Member's net capital, the issue is then escalated to the Office of the CEO, and each of the Executive Chairman, Chief Executive Officer, and Chief Operating Officer have the authority to determine whether OCC should continue calling for additional margin in excess of this amount.

OCC proposes to revise the Policy to require that STLRM provide written notification to the Office of the CEO whenever a Sufficiency Stress Test margin call imposed on an individual Clearing Member exceeds 75% of the Clearing Member's excess net capital (in addition to the current requirement to provide notification for any margin call exceeding $500 million). OCC believes that this additional notification requirement is appropriate because it will allow OCC's senior management to be informed as soon as practicable of, and to subsequently monitor, circumstances where a margin call may strain a particular Clearing Member's ability to meet such requirements based on its financial condition or the amount of collateral it has available to pledge when certain pre-identified thresholds have been exceeded.[20]

5. Correction of Cooling-Off Period and Replenishment/Assessment Power Rules

OCC proposes several corrections to its Rules and Policy concerning its

[12] *Id.*

[13] *See supra* note 7.

[14] *See* OCC Rule 1003(b)(i). OCC removes net asset value from the ''total risk'' component of the allocation formula because it does not reflect a risk measure but rather represents the value of contracts and collateral held in a Clearing Member's accounts.

[15] The System for Theoretical Analysis and Numerical Simulations (or ''STANS'') is OCC's proprietary risk management system for calculating Clearing Member margin requirements. *See* Securities Exchange Act Release No. 53322 (February 15, 2006), 71 FR 9403 (February 23, 2006) (SR–OCC–2004–20). A detailed description of the STANS methodology is available at *http://optionsclearing.com/risk-management/margins/.*

[16] Pursuant to OCC Rule 601(e)(1), in additions to STANS-based requirements, OCC calculates initial margin requirements for segregated futures accounts on a gross basis using SPAN. Commodity Futures Trading Commission (''CFTC'') Rule 39.13(g)(8), requires, in relevant part, that derivatives clearing organizations (''DCOs'') collect initial margin for customer segregated futures accounts on a gross basis. While OCC uses SPAN to calculate initial margin requirements for segregated futures accounts on a gross basis, OCC believes that margin requirements calculated on a net basis (*i.e.,* permitting offsets between different customers' positions held by a Clearing Member in a segregated futures account using STANS) affords OCC additional protections at the clearinghouse level against risks associated with liquidating a Clearing Member's segregated futures account. As a result, OCC calculates margin requirements for segregated futures accounts using both SPAN on a gross basis and STANS on a net basis, and if at any time OCC staff observes a segregated futures account where initial margin calculated pursuant to STANS on a net basis exceeds the initial margin calculated pursuant to SPAN on a gross basis, OCC collateralizes this risk exposure by applying an additional margin charge in the amount of such difference to the account. *See* Securities Exchange Act Release No. 72331 (June 5, 2014), 79 FR 33607 (June 11, 2014) (SR–OCC–2014–13). SPAN is a methodology developed by the Chicago Mercantile Exchange and used by many clearinghouses and exchanges around the world to calculate margin requirements on futures and options on futures.

[17] Under OCC's Margin Policy, OCC may collateralize certain exposures that may be modeled outside of STANS using add-on charges.

[18] The term ''Clearing Fund Draw'' refers to an estimated stress loss exposure in excess of margin requirements.

[19] *See supra* notes 7 and 8.

[20] For example, if a Sufficiency Stress Test margin call imposed on an individual Clearing Member exceeds 75% of the Clearing Member's excess net capital, and such Sufficiency Stress Test also results in Clearing Fund draws for any one or two Clearing Member Groups that exceed 90% of the current Clearing Fund size, OCC may choose to resize the Clearing Fund on an intra-month basis rather than continuing to call for additional margin from a Clearing Member whose ability to meet such a call may be strained. *See supra* notes 7 and 8.

cooling-off period and Clearing Fund replenishment/assessment powers. As part of OCC's recently approved filings to implement enhanced and new recovery tools (''Recovery Tools Filings''), OCC adopted a minimum 15-day ''cooling-off period'' with a cap on Clearing Fund assessments.[21] OCC Rule 1006(h) currently provides that the cooling-off period is triggered when any amount is paid out of the Clearing Fund as a result of a proportionate charge resulting from any of the events described in clauses (i) through (iv) of Rule 1006(a).[22] The actual intention of the Recovery Tools Filings, however, was to capture any proportionate charges related to the default of a Clearing Member,[23] which would also include any use of the Clearing Fund to make good losses or expenses suffered by OCC or as a result of a borrowing by OCC: (1) In connection with protective transactions effected for the account of OCC pursuant to Chapter XI of the Rules and (2) as a result of a failure of any Clearing Member to make any other required payment or render any other required performance (as provided in clauses (v) and (vi) of Rule 1006(a)). OCC therefore proposes to revise its Rules and Policy to more correctly reflect that the cooling-off period and associated assessment caps apply for any proportionate charge resulting from any of the events described in clauses (i) through (vi) of Rule 1006(a). The proposed rule change would ensure that all proportionate charges associated with a Clearing Member default are treated consistently as was originally intended with the adoption of the cooling-off period and modification of OCC's replenishment/assessment powers in the Recovery Tools Filings.

6. Other Clarifying and Conforming Changes

Finally, OCC proposes a number of clarifying, streamlining, and organizational changes to the Methodology Description that are not intended to change the substance of OCC's stress testing and Clearing Fund methodology, but that OCC believes would improve the clarity and readability of the document. The proposed changes to the Methodology Description are described below.

Proposed Changes to the Executive Summary

OCC proposes to revise the model scope discussion of the executive summary to provide a summary of the netting rules and positions sets used for stress testing and to break out different sections for the discussion of Systemic Scenarios and Idiosyncratic Scenarios. The executive summary would also be revised to provide additional information regarding the key assumptions of OCC's stress testing and Clearing Fund methodology. In addition, the Model Performance section of the executive summary would be revised to provide further information on supporting documentation for OCC's stress testing.

Proposed Changes to the Description of Stress Test Portfolio Construction

OCC also proposes to revise its Methodology Description to provide additional details regarding the construction of stress testing portfolios. For example, the proposed revisions would discuss OCC's process for creating the ''Synthetic Accounts'' used in stress testing. Clearing Member positions are initially held in ''Tier Accounts'' that have the same business type (*e.g.,* omnibus customer accounts, combined market maker accounts, firm accounts) and cross-margining relationship with other clearinghouses (if applicable). For the purpose of stress testing, OCC considers liquidation positions, where Tier Account level positions are further aggregated into Synthetic Accounts. The rules that govern the netting process and permissible offsets are based on account structures outlined in OCC's By-Laws and Rules.[24] The proposed revisions would also remove the discussion of ''marginable positions,'' which are used to calculate margin requirements, since marginable positions are not relevant to OCC's Clearing Fund and stress testing methodology requirements and OCC's various account structures and the manner in which such accounts are margined is covered in OCC's By-Laws, Rules, and Margin Policy. In addition, the proposed revisions would restate in descriptive terms the calculation for determining total credit loss shortfalls.

The proposed revisions would also provide further clarity and detail concerning the aggregation of account-level stress test results. A key aspect of the aggregation of business type accounts is that some accounts have a restricted lien, in which assets in that account can only be used to offset losses in that business type account, while other accounts have a general lien, in which assets or gains in that account can be used to offset losses in any business type account of the same Clearing Member. The Methodology Description would be revised to summarize OCC's process for determining if an account is a general lien account or restricted lien account and for ensuring that such accounts receive proper netting treatment.

Proposed Changes to the Description of OCC's Stress Testing Model

In addition, OCC proposes a number of changes to its Methodology Description to improve the description of the models used in OCC's stress testing and Clearing Fund methodology. For example, the Methodology Description would be revised to provide additional context around the types of scenarios (*e.g.,* Systemic Scenarios and Idiosyncratic Scenarios) that stress testing models are used to create. The proposed changes would also provide a more straightforward discussion around the use and selection of risk drivers used to represent risk factors in OCC's one-factor stress testing model.[25] OCC notes that under the current Methodology Description, risk drivers and their mappings are subject to periodic review and change by OCC's Stress Test Working Group (''STWG'').

[21] On August 23, 2018, the Commission issued a Notice of No Objection to an advance notice by OCC concerning changes to OCC's Rules and By-Laws to enhance OCC's existing tools to address the risks of liquidity shortfalls and credit losses and to establish new tools by which OCC could re-establish a matched book and, if necessary, allocate uncovered losses following the default of a Clearing Member as well as provide for additional financial resources. *See* Securities Exchange Act Release No. 83927 (August 23, 2018), 83 FR 44083 (August 29, 2018) (SR–OCC–2017–809). On August 23, 2018, the Commission approved a proposed rule change by OCC concerning the same proposal. *See* Securities Exchange Act Release No. 83916 (August 23, 2018), 83 FR 44076 (August 29, 2018) (SR–OCC–2017–020).

[22] These clauses include the following events: (i) Failure of any Clearing Member to discharge duly any obligation on or arising from any confirmed trade accepted by the Corporation; (ii) failure of any Clearing Member (including any Appointed Clearing Member) or of CDS to perform its obligations (including its obligations to the correspondent clearing corporation) under or arising from any exercised or assigned option contract or matured future or any other contract or obligation issued, undertaken, or guaranteed by the Corporation or in respect of which the Corporation is otherwise liable; (iii) failure of any Clearing Member to perform any of its obligations to the Corporation in respect of the stock loan and borrow positions of such Clearing Member; and (iv) any liquidation of a Clearing Member's open positions.

[23] *See e.g.,* Securities Exchange Act Release No. 83927 (August 23, 2018), 83 FR 44083, 44077 (August 29, 2018) (SR–OCC–2017–809) (providing that ''[t]he proposal would introduce a minimum fifteen calendar day 'cooling-off' period that automatically begins when OCC imposes a proportionate charge related to the default of a Clearing Member against non-defaulting Clearing Members' Clearing Fund contributions.'').

[24] *See e.g.,* OCC Rules 601, 602, 611.

[25] ''Risk factors'' refer broadly to all of the individual underlying securities (such as Google, IBM and Standard & Poor's Depositary Receipts (''SPDR''), S&P 500 Exchange Traded Funds (''SPY''), etc.) listed on a market. ''Risk drivers'' are a selected set of securities or market indices (*e.g.,* SPX or VIX) that are used to represent the main sources or drivers for the price changes of the risk factors.

The Methodology Description currently contains a non-exhaustive, sample set of risk drivers as of March 2018. OCC is proposing to replace the sample set of risk drivers with a more general list of risk drivers that may be used per risk factor type to ensure the ongoing accuracy and clarity of OCC's methodology documentation as the risk drivers change through the STWG governance process. The proposed revisions would also provide additional details around STWG's process for approving the addition, change or retiring of risk drivers. Changes to risk drivers may be based on, among other things: changing business needs, new product launches, open interest, or other changes in product mix. Moreover, when adding, changing, or retiring risk drivers, STWG would consider factors including, but not limited to: contract specifications (*e.g.* a derivative's underlying asset, the asset classification of a product), the relationship between proposed new products and existing risk drivers, the correlation between risk drivers and risk factors, and/or quality of available data. STWG may also approve the retirement and removal of a risk driver that has no risk factors mapped to it or if the risk driver itself is delisted. In addition, OCC would revise the methodology description to further clarify that, unlike annual recalibrations, the STWG would only approve quarterly recalibration of risk driver shocks when warranted (and not as a matter of course). OCC The Methodology Description would also be updated to note that risk drivers and their mappings are maintained by the STLRM group and are available in the stress testing system. OCC does not believe that these proposed changes constitute a material or substantive change in OCC's Methodology Description but rather more appropriately documents OCC's process for maintaining and updating risk drivers.[26]

In addition, OCC proposes to revise the Methodology Description to provide a more straightforward discussion of the modeling of risk factor returns and price shocks for Hypothetical and Historical Scenarios and for OCC's various cleared products. Specifically, OCC proposes clarifying, streamlining, and organizational changes to the description of its modeling of volatility shocks for risk factors with SPX as the risk driver and for non-SPX driven risk factors. The proposed changes would also provide additional details on OCC's volatility modeling for flexibly structured options (or ''flex options''),[27] for which shocked implied volatility is calculated from shocked implied volatilities of regular options.

OCC also proposes to replace a section specifically discussing price shocks for products where the underlying security is a basket of deliverable obligation securities with a more generalized discussion of OCC's approach to modeling price shocks for products with multiple risk factors as the underlying. In this case, the Methodology Description would describe how the underlyings are shocked by applying the one-factor model to each component risk factor. In addition, this proposed change would eliminate a restriction limiting the methodology to an ''all or none'' approach where price shocks are modeled using either all historical shocks or all shocks derived from OCC's beta methodology [28] to provide appropriate flexibility for OCC to determine price shocks on an individual risk factor basis depending on whether historical data is available. This allows for consistency between the shocks of the basket and the shocks used to price products on the basket's components. The Methodology Description would also be revised to describe how, in the case of a leveraged product, shocks are determined using a leverage ratio with respect to its tracking index used as the default beta. OCC believes the proposed changes are more generally aligned with the intended purpose of the Methodology Description, which is designed, in general, to provide a general description of the materials aspects of OCC's stress testing and Clearing Fund methodologies.

Additionally, OCC proposes to correct a reference to the use of log returns in the calculation of volatility shocks to more accurately state that these calculations are currently made using two-day arithmetic returns. OCC's stress testing methodology utilizes two-day arithmetic returns to calculate these shocks to align with OCC's two-day liquidation horizon assumption for its margin methodology and the arithmetic returns used in its dynamic VIX calibration process.[29]

OCC also proposes to clarify that implied volatility shocks for Systemic Scenarios are based on the expected risk, or ''variance,'' of the risk factor in a forward-looking period after the price shock as opposed to the ''standard deviation.'' OCC believes that using the terms ''variance'' or ''standard deviation'' are essentially equivalent ways to describe the equation; however, the term ''variance'' would more accurately reflect the terms of equation used in the document.

Proposed Changes to Description of Calibrations

OCC proposes to revise its Methodology Description to more correctly describe the approach for generating shocks for U.S. Treasuries and Canadian Government Bond by replacing the term ''covariance'' with ''correlation.'' While the calibration does use a covariance matrix, the inputs to the calibration are normalized by their standard deviation and so the resulting matrix actually contains correlations. The correlation matrix is then scaled by standard deviation terms to generate interest rate shocks.[30]

Proposed Changes to Description of Stress Test Scenarios

Finally, OCC proposes to revise the Methodology Description to provide additional clarity around the use and calibration of risk driver shocks in Hypothetical, Historical and Idiosyncratic Scenarios. OCC would also remove specific references to certain risk drivers and parameters that are subject to periodic review and change through its internal governance processes. OCC would also update the sample table of stress test scenarios in the document to: (1) Reflect the addition of the proposed Idiosyncratic Scenarios; (2) remove Informational Scenarios from the table, which do not drive financial resource determinations and are subject to periodic change; and (3) provide additional information on the type of price shock used for each scenario in

[26] OCC notes that the Methodology Description would continue to specify that SPX and VIX are the main risk drivers for shocks of equity risk factors as equity risk factors make up the vast majority of volume, open interest, and risk at OCC. Due to the nature of equity risk factors, OCC's stress testing methodology treats equity risk factors in a standard and consistent fashion with respect to the mapping of risk drivers. Non-equity products, such as commodity futures and certain exchange-traded products (*e.g.,* ETFs and ETNs), may have different risk drivers or risk drivers may change due to the evolving nature of the securities markets and the products OCC clears. Consequently, OCC believes it is necessary to maintain appropriate flexibility to adjust risk drivers as evolving circumstances warrant through the established STWG governance process.

[27] Flex options are options that give investors the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices that do not correspond to the terms of any series of non-flexibly structured options previously opened for trading on an Exchange. *See* OCC By-Laws, Article I., Section 1.F.(8).

[28] The ''beta'' is the sensitivity of a security with respect to its corresponding risk driver (*i.e.,* the sensitivity of the price of the security relative to the price of the risk driver).

[29] *See supra* note 7.

[30] OCC notes that this is a standard practice. *See* Litterman, Robert and Sheinkman, Jose, ''Common Factors Affecting Bond Returns,'' *Journal of Fixed Income,* 1991.

the table. In addition, OCC proposes to remove certain language from the document that provides qualitative justification for OCC's Clearing Fund allocation methodology but does not have any relevance to the actual calculation of Clearing Fund allocations.

Clearing Member Outreach

To inform Clearing Members of the proposed changes, OCC has provided an overview of the proposed changes to the Financial Risk Advisory Council (''FRAC''), a working group comprised of exchanges, Clearing Members and indirect participants of OCC. OCC has also performed direct outreach to Clearing Members that would be most impacted by the proposed changes. To-date, OCC has not received any material objections or concerns in response to this outreach.

Implementation Timing

OCC expects to implement the proposed changes within sixty (60) days after the date that OCC receives all necessary regulatory approvals for the proposed changes. OCC will announce the implementation date of the proposed change by an Information Memorandum posted to its public website at least two (2) weeks prior to implementation.[31]

Expected Effect on and Management of Risk

OCC believes the proposed changes are designed to enhance OCC's overall framework for managing credit risk. The introduction of the proposed Idiosyncratic Scenarios would enhance OCC's stress testing methodology and overall resiliency by providing a more comprehensive suite of Sizing Stress Tests to ensure that OCC maintains an appropriate level of Pre-Funded Financial Resources to cover its credit exposures under scenarios addressing both systemic market risks and idiosyncratic risks. As noted above, OCC's Sizing Stress Tests are used to establish the monthly size of the Clearing Fund necessary for OCC to maintain sufficient Pre-Funded Financial Resources to cover losses arising from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure to OCC in extreme but plausible market conditions. The proposed Idiosyncratic Scenarios would supplement OCC's current set of Sizing Scenarios (which are generally designed to estimate risk exposures arising from more broad-based market and systemic shocks reflected in OCC's Systemic Scenarios) by enabling OCC to appropriately consider the risks of extreme moves in individual or small subsets of securities. OCC therefore believes that the proposed rule change would enhance OCC's overall framework for managing credit risks and reduce the risk that its Pre-Funded Financial Resources would be insufficient in the event of a Clearing Member default.

In addition, OCC proposes to enhance its stress testing methodology to more accurately and appropriately model price shocks for VIX futures. Under OCC's current stress testing methodology, prices shocks for VIX futures are equivalent to the price shock for the underlying VIX index. OCC believes that this approach is unrealistic in that it produces a uniform shock across expirations of the VIX futures contract, which leads to an overestimation of VIX futures price shocks, particularly in market decline scenarios. OCC therefore proposes to enhance its stress testing methodology to produce more appropriate VIX futures price shocks that would vary based on the expiration of contracts as is more realistically observed in the market.[32] OCC believes the proposed changes would enhance OCC's framework for managing credit risk because it would result in more accurate and realistic stress testing results.

OCC also proposes to revise the Policy to require that STLRM provide written notification to the Office of the CEO whenever a Sufficiency Stress Test margin call imposed on an individual Clearing Member exceeds 75% of the Clearing Member's excess net capital. The proposed change would allow OCC's senior management to be informed of, and to subsequently monitor, circumstances where a margin call may strain a particular Clearing Member's ability to meet such requirements based on its financial condition or the amount of collateral it has available to pledge when certain pre-identified thresholds have been exceeded. OCC believes the proposed rule change would improve its process for monitoring and managing credit risk, particularly those risks that may be identified in the Sufficiency Stress Test margin call process, and allow OCC to take steps to reduce potential default risks for its Clearing Members.

OCC proposes to standardize the margin risk component of its Clearing Fund allocation formula by using only STANS-based margin requirements for all Clearing Members. OCC believes it is appropriate to use the same margin risk measurement for all Clearing Members/accounts when determining Clearing Fund allocations since this allows for a more equitable comparison across all accounts through the utilization of a consistent margin methodology. OCC believes that the proposed changes would result in an allocation formula that determines Clearing Member contribution requirements that are commensurate to the risks posed by each Clearing Member.

Consistency With the Payment, Clearing and Settlement Supervision Act

The stated purpose of the Clearing Supervision Act is to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.[33] Section 805(a)(2) of the Clearing Supervision Act[34] also authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like OCC, for which the Commission is the supervisory agency. Section 805(b) of the Clearing Supervision Act[35] states that the objectives and principles for risk management standards prescribed under Section 805(a) shall be to:

- Promote robust risk management;
- promote safety and soundness;
- reduce systemic risks; and
- support the stability of the broader financial system.

OCC believes that the proposed changes described herein are consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act[36] and the risk management standards adopted by the Commission in Rule 17Ad–22 under the Act for the reasons set forth below.[37]

[31] OCC notes that the impact of certain changes, such as the proposed changes to the Clearing Fund allocation formula and potential for a new Idiosyncratic Scenario to set the size of the Clearing Fund, will not occur until the first monthly resizing of the Clearing Fund following the announced implementation date.

[32] Additionally, because VIX futures are used to calculate theoretical values for VIX options, the proposed enhancement would improve the pricing of both VIX futures and VIX options in OCC's stress testing methodology.

[33] 12 U.S.C. 5461(b).

[34] 12 U.S.C. 5464(a)(2).

[35] 12 U.S.C. 5464(b).

[36] *Id.*

[37] 17 CFR 240.17Ad–22. *See* Securities Exchange Act Release Nos. 68080 (October 22, 2012), 77 FR 66220 (November 2, 2012) (S7–08–11) (''Clearing Agency Standards''); 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7–03–14) (''Standards for Covered Clearing Agencies''). OCC is a ''covered clearing agency'' as defined in Rule 17Ad–22(a)(5) and therefore must comply with the requirements of Rule 17Ad–22(e).

OCC believes the proposed changes are consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act.[38] The proposed changes are designed to enhance OCC's overall framework for managing credit risk. The proposed changes would introduce new Idiosyncratic Scenarios to provide for a more comprehensive suite of Sizing Stress Tests and ensure that OCC maintains an appropriate level of Pre-Funded Financial Resources to cover its credit exposures under scenarios addressing both systemic market risks and idiosyncratic risks. OCC also proposes to enhance its stress testing methodology to more accurately and appropriately model price shocks for VIX futures. Additionally, OCC proposes to standardize the margin risk component of its Clearing Fund allocation formula by using only STANS-based margin requirements for all Clearing Members, which would allow for a more equitable comparison across all accounts through the utilization of a consistent margin methodology, and result in an allocation formula that determines Clearing Member contribution requirements that are commensurate to the risks posed by each Clearing Member. Moreover, OCC proposes to enhance its process for monitoring and managing credit risk, particularly those risks that may be identified in the Sufficiency Stress Test margin call process, and allow OCC to take steps to reduce potential default risks for its Clearing Members. OCC believes the proposed changes are generally designed to promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system in accordance with the objectives and principles of Section 805(b) of the Clearing Supervision Act.[39]

OCC also believes the proposed changes are consistent with the risk management standards adopted by the Commission in Rule 17Ad–22 under the Act. Rule 17Ad–22(b)(3)[40] requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions. Rules 17Ad–22(e)(4)(iii) and (iv)[41] further require, 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 or otherwise maintained to meet the requirements of Rule 17Ad–22(e)(4)(i))[42] 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 and do so exclusive of assessments for additional guaranty fund contributions or other resources that are not prefunded.

The proposed rule change would enhance OCC's stress testing methodology and overall resiliency by providing a more comprehensive suite of Sizing Stress Tests to ensure that OCC maintains appropriate level of Pre-Funded Financial Resources to cover its credit exposures under scenarios addressing both systemic market risks and idiosyncratic risks. The proposed Idiosyncratic Scenarios would supplement OCC's current set of Sizing Scenarios, which are generally designed to estimate risk exposures arising from more broad-based market and systemic shocks reflected in OCC's Systemic Scenarios, by enabling OCC to appropriately consider the risks of extreme moves in individual or small subsets of securities. OCC therefore believes that the proposed rule change would enhance OCC's overall framework for managing credit risks and reduce the risk that its Pre-Funded Financial Resources would be insufficient in an actual default.

In addition, OCC proposes to enhance its stress testing methodology by using SPX at-the-money implied volatility shocks across different expirations to model price shocks for VIX futures contracts for corresponding expirations as opposed to using a uniform shock for all expirations. The proposed rule change is designed to more accurately measure OCC's credit exposure in its stress scenarios by producing price shocks for VIX futures that would vary based on the expiration as is more realistically observed in the market.

Taken together, OCC believes the proposed changes are reasonably designed so that OCC can measure its credit exposures to its participants and manage such exposures by maintaining sufficient financial resources at a 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 OCC in extreme but plausible market conditions (and do so exclusive of assessments for additional Clearing Fund contributions or other resources that are not prefunded). For these reasons, OCC believes the proposed changes are consistent with Rule 17Ad–22(b)(3) and Rules 17Ad–22(e)(4)(iii) and (iv).[43]

Furthermore, Rule 17Ad–22(e)(4)[44] generally requires 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. OCC believes the proposed changes to its Sufficiency Stress Test monitoring process would improve its overall processes for monitoring and managing credit risk. OCC would revise the Policy to require that STLRM provide written notification to the Office of the CEO whenever a Sufficiency Stress Test margin call imposed on an individual Clearing Member exceeds 75% of the Clearing Member's excess net capital (in addition to the current requirement to provide notification for any margin call exceeding $500 million). The proposed change would allow OCC's senior management to be informed of, and to subsequently monitor, circumstances where a margin call may strain a particular Clearing Member's ability to meet such requirements based on its financial condition or the amount of collateral it has available to pledge when certain pre-identified thresholds have been exceeded. OCC therefore believes the proposed rule change is reasonably designed to help OCC identify, measure, and monitor its credit exposures to participants, particularly those identified through Sufficiency Stress Test margin calls, consistent with Rule 17Ad–22(e)(4).[45]

[38] 12 U.S.C. 5464(b).

[39] *Id.*

[40] 17 CFR 240.17Ad–22(b)(3).

[41] 17 CFR 240.17Ad–22(e)(4)(iii) and (iv).

[42] 17 CFR 240.17Ad–22(e)(4)(i).

[43] 17 CFR 240.17Ad–22(b)(3) and (e)(4)(iii) and (iv).

[44] 17 CFR 240. 17Ad–22(e)(4).

[45] *Id.* OCC also believes that the proposed change to the Policy would: (1) Provide for governance arrangements that specify clear and direct lines of responsibility consistent with the requirements of

Continued

OCC also believes that the proposed changes to standardize the margin risk component of its Clearing Fund allocation formula by using only STANS-based margin requirements for all Clearing Members are reasonably designed to measure and manage its credit exposures to participants. With respect to the use of Clearing Funds and the requirements of Rule 17Ad–22(e)(4),[46] the Commission has noted that, to the extent that a clearing agency uses guaranty or clearing fund contributions to mutualize risk across participants, the clearing agency generally should value margin and guaranty fund contributions so that the contributions are commensurate to the risks posed by the participants' activity.[47] OCC believes it is appropriate to use the same margin risk measurement for all Clearing Members/accounts when determining Clearing Fund allocations since this allows for a more equitable comparison across all accounts and would result in contribution requirements that are commensurate to the risks posed by each Clearing Member. As a result, OCC believes the proposed changes are reasonably designed to comply with the requirements of Rule 17Ad–22(e)(4).[48]

Rule 17Ad–22(e)(4)(ix)[49] requires 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 describing its process to replenish any financial resources it may use following a default or other event in which use of such resources is contemplated. OCC believes the proposed changes to its cooling-off period and associated assessment cap Rules would ensure that the cooling-off period and associated assessment caps are consistently applied for any proportionate charge resulting from any of the events described in clauses (i) through (vi) of Rule 1006(a) and thereby ensure that OCC can fully access, utilize, and replenish its Clearing Fund resources to address any losses chargeable against the Clearing Fund and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes in a manner consistent with Rule 17Ad–22(e)(4)(ix).[50]

Finally, OCC believes the proposed clarifying, organizational, and streamlining changes to its Rules, Policy, and Methodology Description would improve the clarity and readability of its stress testing and Clearing Fund-related rules and policies are therefore consistent with the Rule 17Ad–22(e)(4)[51] requirement that OCC maintain policies and procedures that are reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes.

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date the proposed change was filed with the Commission or (ii) the date any additional information requested by the Commission is received. OCC shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

OCC shall post notice on its website of proposed changes that are implemented. The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the advance notice is consistent with the Clearing Supervision 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 email to *rule-comments@sec.gov.* Please include File Number SR–OCC–2019–806 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–OCC–2019–806. This file number should be included on the subject line if email 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 advance notice that are filed with the Commission, and all written communications relating to the advance notice 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 the filing also will be available for inspection and copying at the principal office of the self-regulatory organization.

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–2019–806 and should be submitted on or before November 27, 2019.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

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Rule 17Ad–22(e)(2)(v) and (2) contribute to a sound risk management framework for identifying, measuring, monitoring and managing credit and other risks that arise in or are borne by OCC in furtherance of the requirements of Rule 17Ad–22(e)(3)(i). *See* 17 CFR 240.17Ad–22(e)(2)(v) and 17 CFR 240.17Ad–22(e)(3)(i).

[46] *Id.*

[47] *See* Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7–03–14) (''Standards for Covered Clearing Agencies'') at 70813.

[48] *Id.*

[49] 17 CFR 240. 17Ad–22(e)(4).

[50] *Id.*

[51] 17 CFR 240. 17Ad–22(e)(4).