

ACTIONABLE IDENTIFIER FOR OPTION TRADES

Discussion on the Clearing and Management of Client and Firm Option Trades

May 20, 2019

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Actionable Identifier

SUMMARY

The current Clearing Member Trade Assignment (“CMTA”) process allows an Executing Clearing Member and a Carrying Clearing Member to agree to have option trades executed by the Executing Clearing Member sent to the Carrying Clearing Member for clearance and settlement. Clearing Members have been concerned with the risks they face in handling trades they cannot timely identify in connection with the CMTA process, and they have reached out to OCC to help them address these risks.

In response to these concerns, OCC has amended Rule 401 to require that an “Actionable Identifier” be included on all customer and firm securities options trades submitted to OCC for processing other than market maker trades. OCC believes that having an Actionable Identifier on customer and firm trades will allow Clearing Members to more timely identify trades transmitted as part of a CMTA arrangement as well as trades transmitted through the “give-up” process at the exchanges.

BACKGROUND

The CMTA process was created to allow clients to hold their positions with preferred Prime Brokers, while still utilizing specialized execution brokers to execute the trades. To support this activity, the Executing Clearing Member and Carrying Clearing Member enter into a CMTA arrangement that allows the Executing Clearing Member to assign the trade to the Carrying Clearing Member when it reaches OCC. Once established, the CMTA process allows the Executing Clearing Members to seamlessly transfer a client’s options trades to their Carrying Clearing Members in a timely fashion through OCC.

The primary concern raised by Carrying Clearing Members is that they could receive trades through the CMTA process that they may not recognize in a timely manner because the trades do not include information that allows them to quickly identify the correct account or determine that the trade should have been sent to another Carrying Clearing Member. This could happen if the Carrying Clearing Member is not given the client’s correct account information or any account information at all. If a Carrying Clearing Member is unable to timely and correctly identify a customer account for the trade or recognize that the trade is not theirs, it may end up holding the position overnight and is responsible for making settlement on the trade, paying clearing and SEC fees, covering the margin on the position, as well as being exposed to possible assignment risk related to the position. Carrying Clearing Members are concerned about the potential risks they face in such a situation.

In addition to CMTA trades, OCC Clearing Members are also concerned about the give-up process at the exchanges. With the give-up process, the executing broker can execute a customer trade on the exchange and give-up the trade to a clearing broker that is an OCC Clearing Member. The trade clears in the Clearing Member’s customer account with no reference to the client, which can make it difficult for the Clearing Member to promptly book the trade to the correct client account.

Actionable Identifier

OCC understand that these issues also exist with trades that clear in the firm account. When firms have multiple trading desks or JBO (Joint Back Office) arrangements, trades cleared without any identifying information may be challenging to book into the correct account. Operations staff may not immediately know which trading desk or firm in the JBO arrangement executed the trade.

ACTIONABLE IDENTIFIER REQUIREMENT

OCC has amended Rule 401 to require that an “Actionable Identifier” be included on all customer and firm securities options trades submitted to OCC for processing, except market maker trades. Having an Actionable Identifier on customer and firm trades will allow Clearing Members to more timely identify trades transmitted as part of a CMTA arrangement as well as trades transmitted through the “give-up” process at exchanges, resulting in increased efficiency in clearing.

Because the Actionable Identifier is not necessary for OCC to clear and settle a trade, OCC is not mandating the information as a condition for acceptance of the trade at this point in time. OCC will not reject any trades if the Actionable Identifier is not populated.

WHAT DO THE FIRMS NEED TO DO?

Carrying Clearing Members should determine how they plan to use the Actionable Identifier in their processing. Options include automating their trade reconciliation process or feeding it into their risk systems for monitoring of clients. Once they determine how the data will be used, they would need to collaborate with Executing Clearing Members to determine the appropriate identifier.

In early 2018, several OCC Clearing Members worked together to get a sense of whether Customer ID information included on trades could serve as appropriate Actionable Identifiers for their clients. During this process, they identified that a majority of the Customer IDs that were included in trades at that time were not actionable. Even though the Customer ID was populated, this information did not have any meaning for the Carrying Clearing Member.

It is important for Clearing Members to start thinking about how they will implement this new requirement. Each Clearing Member should consider reviewing their trade processing procedures and determine what type of information should be required on the trade to provide meaningful information. In Rule 401, an Actionable Identifier is defined as either the name, series of numbers, or other identifying information that would be used by the clearing firm to identify the account that originated the trade. Carrying Clearing Members should reach out to their Executing Clearing Members since they will be dependent on the Executing Clearing Members to populate the information.

For Clearing Members that execute and clear their own trades, an Actionable Identifier is still required. Clearing Members should consider if they want to include client identifying information as the Actionable Identifier or simply information indicating that the trade is self-cleared.

Actionable Identifier

The Actionable Identifier will be populated through the Customer ID field (Tag 1) at each exchange with the exception of the Cboe which requires Tag 440. After completion of the Cboe/Bats migration in 2019, Cboe will also use Tag 1 for the Customer ID field. In addition, upon migration, the Optional Data field at the Cboe will be available for firms to populate with additional information regarding Customer IDs. This was requested specifically by execution firms who wanted to put their client account information in the Optional Data field as this is likely different from the information supplied in the Customer ID field.

As part of the new requirement, Clearing Members in CMTA arrangements will have to adopt and maintain policies and procedures reasonably designed to provide that sufficient information is included in the Actionable Identifier field to allow the Clearing Member receiving the trade to promptly clear it.

MAPPINGActionable Identifier Field Mapping Document

Exchange	FIX Tag for Customer ID	Proprietary Transmission Protocols	
		System	Field Name for Customer ID
BATS	Tag 1	Binary Order Entry	Account
EDGX	Tag 1	Binary Order Entry	Account
BOX	Tag 1	SAIL	Clearing Instruction and Owner Field
Cboe*	Tag 440	CMI	Sub-account
C2	Tag 1	Binary Order Entry	Account
NASDAQ ISE	Tag 1	OTTO	Account
NASDAQ MCRY	Tag 1	OTTO	Account
NASDAQ GEM	Tag 1	OTTO	Account
MIAX Options	Tag 1	MEI	N/A
MIAX PEARL	Tag 1	MEO	Account
NASDAQ BX	Tag 1	FIX Only	N/A
NASDAQ OX	Tag 1	FIX and OTTO	Account
NASDAQ PHLX	Tag 1	FIX Only	N/A
NYSE AMEX	Tag 1	Arca Direct	Account
NYSE ARCA	Tag 1	Arca Direct	Account

Inbound Exchange Trade Messages from Exchange to OCC

Buy Side Account (Customer Acct #)	Sell Side Account (Customer Acct #)
Tag # 448	Tag # 448

OCC Outbound DDS Messages to Members and Exchanges

Customer Account Number (Account#) Tag #448
Trade Capture Report – Pty ID “ “ R=“24”

*Cboe will convert to using Tag 1 for Customer ID upon migration to BATS technology in October 2019.

Actionable Identifier

CONFIDENTIALITY

The requirement of an Actionable Identifier on all customer and firm option trades is to support the timely clearing of trades at their Carrying Clearing Members. A common concern expressed so far is that this requirement could increase the visibility of a client's ID to the industry. To maintain anonymity, Clearing Members can decide the identifier for their clients. Firms are also concerned when Introducing Brokers are involved in executing trades and the confidentiality of their clients. In this situation, the Executing Broker may just want to identify the Introducing Broker on the trade rather than the client.

OCC has worked to preserve anonymity of the client on the trade by suppressing the contra client's ID on all options trade data to counterparties. Beginning in July 2018, OCC's options trade processing now ensures a client's identity is only visible to the Executing Clearing Member and Carrying Clearing Member. It will not be visible to the contra party to the trade or any other party.

In contrast to the options markets, other markets such as the futures market already require some sort of customer identification on transactions, so firms should have familiarity with this type of requirement.

TIMELINE

Clearing Members will have 12 months to comply with the requirement that an Actionable Identifier be included in every securities option customer and firm trade except for market-maker trades. OCC plans to monitor all trades and identify if the Actionable Identifier field is not populated with some data (i.e., the Customer ID field is blank). During this time, OCC does not plan to surveil whether the data is in fact actionable but rather monitor whether the field is populated with data. OCC plans to contact firms during this time that are not populating the field with data to find out about their implementation plan or improvements to their plan.

After 19 months all trades must include an Actionable Identifier.

Actionable Identifier

Timeframe	Required Action
September 20, 2018	OCC submitted in draft to the SEC staff a proposed rule change to Rule 401 that would require an Actionable Identifier on trades
March 20, 2019	Formal Rule Filing to amend Rule 401 to require an Actionable Identifier on trades
May 6, 2019	SEC approval
13 months after SEC approval – June 8, 2020	Firms would be required to populate Customer ID fields with Actionable Identifiers on all customer and firm trades and should have in place policies and procedures reasonably designed to include Actionable Identifier data to allow prompt clearance of the trades. However, OCC would not treat as a violation of Rule 401 the failure of such policies and procedures to provide that sufficient information is included in the Actionable Identifier field.
19 months after SEC approval – December 7, 2020	<p>Firms would be required to populate Customer ID fields on trades with Actionable Identifier data and the data should be actionable to identify clients. This is for all customer and firms trades other than market-maker trades.</p> <p>Firms must have policies and procedures in place reasonably designed to provide that sufficient information is included in the Actionable Identifier fields to allow the receiving firm to promptly clear the trades.</p>

MONITORING

May 6, 2019 – June 5, 2020

OCC plans to monitor the progress of all Clearing Members during this process. OCC will identify trades that do not include an Actionable Identifier (i.e., the Customer ID field is blank) and report the information to the firms. OCC will not monitor if the identifier is actionable so it is the firm's responsibility to work on refining their process during this time to include identifiers that are actionable. OCC has provided additional filter functionality within the trade inquiry screen for firms to monitor their own trades and progress.

Actionable Identifier

June 8, 2019 – December 4, 2020

OCC will monitor all trades and identify if the Actionable Identifier is not populated with some data (i.e., the Customer ID field is blank). During this time, OCC does not plan to validate the data but rather make sure firms can populate this field. In other words, firms should have in place policies and procedures reasonably designed to include Actionable Identifier data to allow prompt clearance of the trades. However, OCC would not treat this as a violation of Rule 401 as a failure of such policies and procedures to provide that sufficient information is included in the Actionable Identifier field.

December 7, 2020

As of December 7, 2020, and going forward, all trades must include an Actionable Identifier that is usable to the Carrying Clearing Member. In addition, OCC will require Clearing Members in CMTA arrangements to have policies and procedures in place reasonably designed to include sufficient information in the Actionable Identifier fields to allow the Clearing Member receiving the trades to promptly clear them. OCC can validate that firms are complying with Rule 401 by requiring Clearing Members to provide an attestation to OCC or by the OCC Risk Exam Team requesting a sampling of trades to determine how the clearing firms identify the clients.

Firms that do not comply to the rule may be subject to an OCC violations and fines.

INDUSTRY OUTREACH

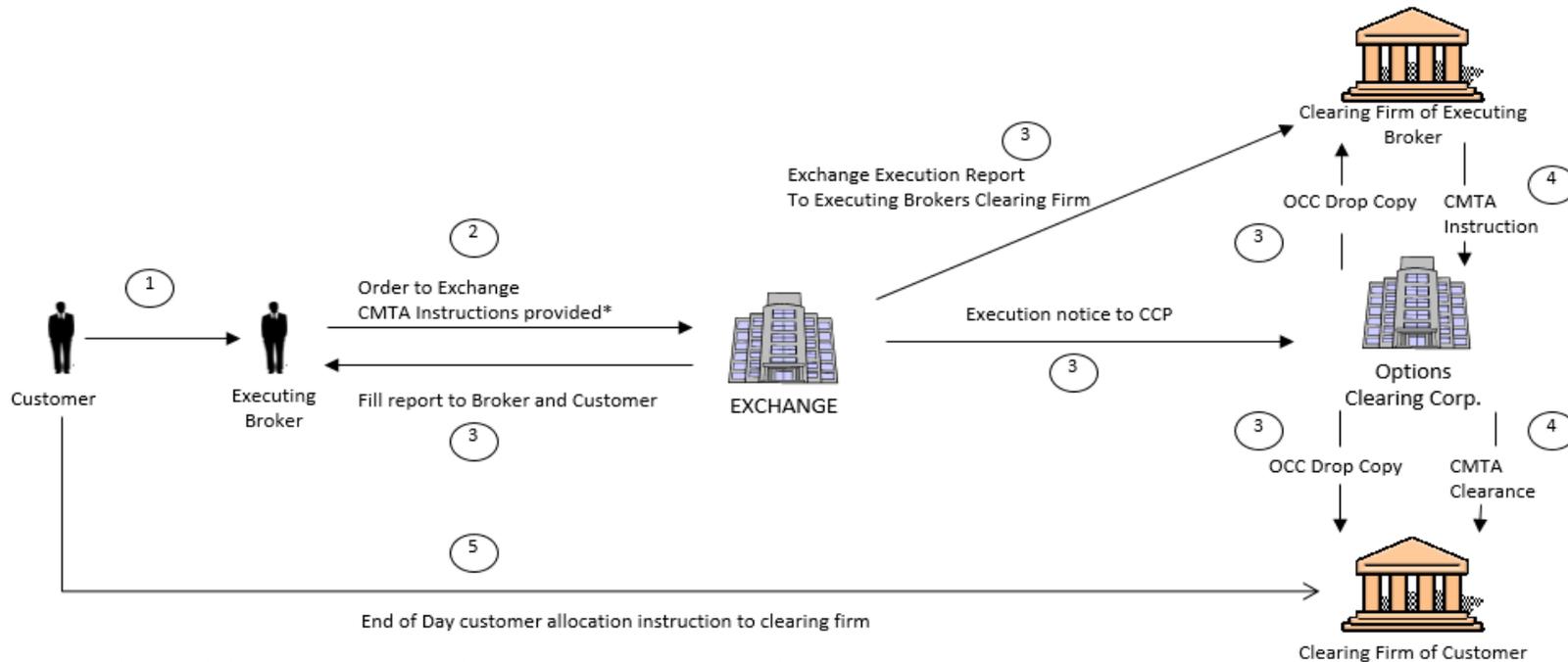
Throughout this process, OCC plans to maintain consistent interactions with Clearing Members through memos, Industry calls and one-on-one meetings to effectively communicate the requirements and implementation progress of the new requirement to include an Actionable Identifier on the trade record. OCC's public website (www.theocc.com) will maintain a link containing memos, FAQs and other important information regarding this industry initiative. During implementation, Clearing Members can monitor their progress through ENCORE and the Trade Inquiry screen. OCC has updated the Trade Inquiry function in ENCORE so firms may filter their positions for trades that do not contain Actionable Identifier information. This will allow them to monitor their progress and detect any issues. OCC also plans to monitor and provide feedback to Clearing Members on their progress in including an Actionable Identifier on all trades other than market maker trades.

FUTURE PHASES

Actionable identifier is the first step towards future projects. Setting credit limits for customers or creating a give-up/take-up model where firms can decide to accept or reject trades based on the account identifier are both potential future enhancements. OCC believes that none of these enhancements can be accomplished without an Actionable Identifier.

APPENDIX I – TRADE FLOWS

APPENDIX: US Listed Options CMTA Trade Flow

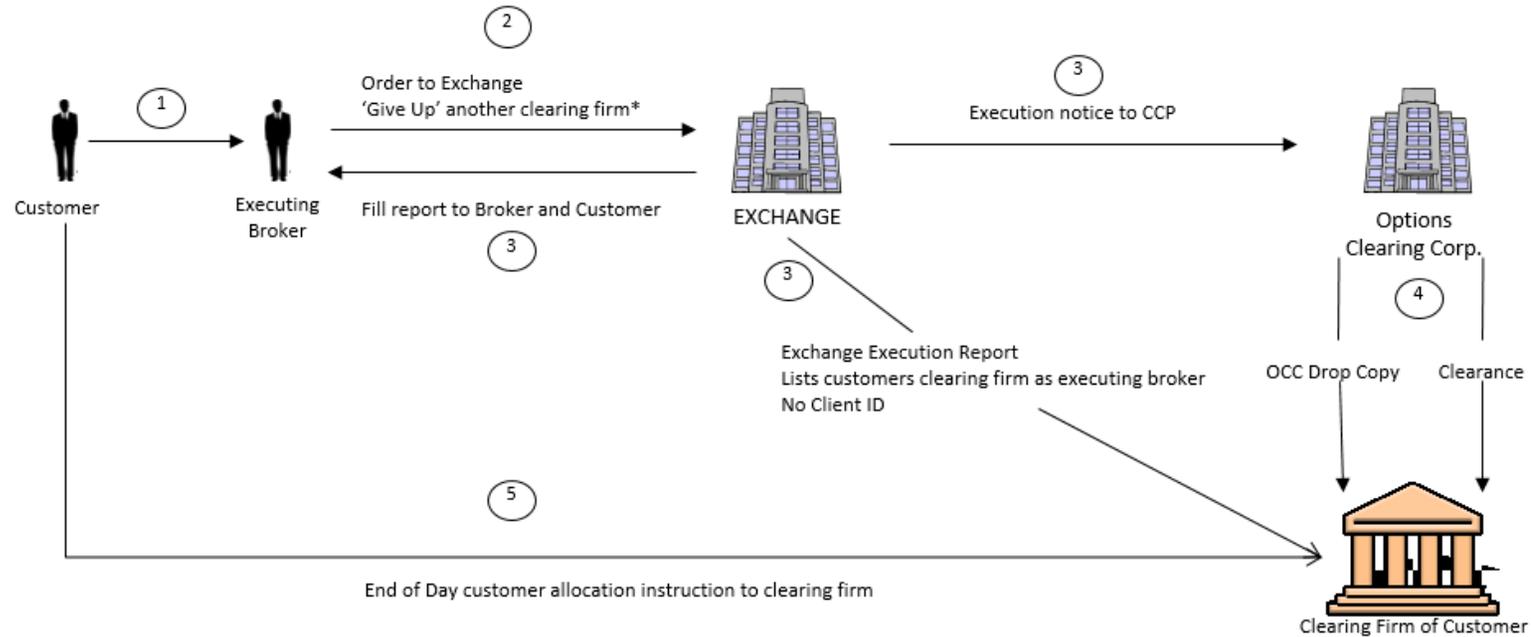


*CMTA's require bi-lateral agreement in OCC clearing system between 2 OCC members

Trade Life Cycle:

1. Order is given to an Executing Broker.
2. Executing Broker routes the order to an exchange . The trade is executed under the membership of executing broker with a CMTA instruction.
3. Execution reports are sent by exchange to executing broker, CCP and Clearing Firm of the Executing Broker. The OCC will send both clearing firms a copy of the matched trade per step 4. No Client ID is mandated and Clearing Firm does not know the ownership of the trade.
4. OCC clears the activity and delivers the trade from the Executing Clearing firm to the Clients Clearing Firm per the CMTA (without client ID).
5. At end of day, Customer sends allocation notice to Clearing Firm with account identifiers, Clearing firm allocates trade on its books and records.

US Listed Options Exchange Give Up Trade Flow



*Not all exchanges provide for or mandate protocol requiring end Clearing Firm to permission 'Give Up' activity

Trade Life Cycle:

1. Order is given to an Executing Broker.
2. Executing Broker routes the order to an exchange and "gives up" the client's clearing firm. The trade is executed under the membership of client's clearing firm, not the executing broker.
3. Execution reports are sent by exchange to executing broker, CCP and clearing firm. No Client ID is mandated and Clearing Firm does not know the ownership of the trade.
4. OCC clears the activity into the Clearing Firm's Account and sends a drop copy message to Clearing Firm (without client ID).
5. At end of day, Customer sends allocation notice to Clearing Firm with account identifiers, Clearing firm allocates trade on its books and records.

Actionable Identifier

Revision History

Date

Comments

3/22/2019	Original Version
5/16/2019	Updated for SEC approval