



DCO Rules

UNITED STATES COMMODITY FUTURES TRADING COMMISSION

Submitter Information	
Organization Name Options Clearing Corporation	
Organization Type DCO	Organization Acronym OCC
Submitted By [REDACTED]	Email Address [REDACTED]
Cover Sheet	
Submission Number 2605-2210-4631-64	Submission Date 5/22/2026 10:46:31 AM ET
Submission Type 40.6(a) Rule Certification	
Submission Description Changes to OCC's STANS Methodology Description to enable OCC to clear binary options	
☒ Request Confidential Treatment	
Registered Entity Identifier Code SR-OCC-2026-003	
Rule Numbers STANS Methodology Description	
Date of Intended Implementation 6/15/2026	
Documents	
CFTC Self-Certification Binary Options SR-OCC-2026-003.docx Binary Options SR-OCC-2026-003 Confidential Exhibit A - STANS Methodology Description.docx (Confidential Treatment Requested)	
Request For Confidential Treatment - Detailed Written Justification	
OCC Confidential Treatment Request - Binary Options Self-Certification.docx	



**THE FOUNDATION
FOR SECURE
MARKETS™**

Options Clearing Corporation
125. S. Franklin Street, Suite 1200
Chicago, IL 60606
312 322 6200 | theocc.com

May 22, 2026

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 by The Options Clearing Corporation Concerning
Amendments to OCC's STANS Methodology Description to Enable OCC to
Accept Binary Options for Clearing and Appropriately Manage the Risk
Created by Binary Options.**

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 to OCC's STANS Methodology Description to enable OCC to accept binary options for clearing and appropriately manage the risk created by binary options. 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 OCC's System for Theoretical Analysis and Numerical Simulation ("STANS") Methodology Description to enable OCC to accept binary options for clearing and appropriately manage the risk created by binary options.

OCC filed as Exhibit A to the Self-Certification the updated version the STANS Methodology Description. Material proposed to be added is marked by underlining and material proposed to be deleted is marked with strikethrough text. 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.

Overview

OCC is the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission. OCC also clears certain stock loan and futures transactions. Recently, OCC Participant Exchanges have expressed interest in listing binary options for trading and OCC is proposing to accept binary options for clearing. A binary call option pays \$1 when the underlying asset is at or above the strike at maturity and expires worthless otherwise. Likewise, A binary put option pays \$1 when the underlying asset is below the strike at maturity and expires worthless otherwise. As an initial matter, OCC proposes to clear binary options on equity indexes. As such, OCC presently intends to clear only binary options that are within the definition of a “security” as determined by the Commission.¹ All initially proposed binary options would be European-style. However, OCC expects additional products to be launched as exchanges expand their offerings, and additional exchanges begin to list binary options. Because OCC previously cleared binary options, OCC’s rulebook still includes a chapter covering binary options that OCC believes is adequate to enable it to clear binary options.²

OCC, however, believes that certain changes are necessary to enable it to clear binary options to reflect changes in OCC’s risk management since the last time that OCC cleared binary options. In its role as a clearing agency, OCC guarantees the performance of its Clearing Members for all transactions cleared by OCC by becoming the buyer to every seller and the seller to every buyer. OCC is therefore exposed to the credit risk arising from the activity of the Clearing Members. OCC manages these financial risks through financial safeguards, including the collection of margin collateral from Clearing Members designed to, among other things, address the market risk associated with a Clearing Member’s positions during the period of time OCC has determined it would take to liquidate those positions.

To calculate margin requirements, OCC uses STANS, its proprietary risk management system.³ The STANS methodology utilizes large-scale Monte Carlo simulations to forecast price and volatility movements in determining a Clearing Member’s margin requirement.⁴ STANS margin requirements are calculated at the portfolio level of Clearing Member accounts with positions in marginable securities and consists of an estimate of two primary components: a

¹ See, e.g., 15 U.S.C. 78c(a)(10) (defining “security” to include “any put, call, straddle, option or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof)”; 7 U.S.C. 2(a)(1)(C)(i)(I) (providing that the CFTC “shall have no jurisdiction to designate a board of trade as a contract market for any transaction whereby any party to such transaction acquires any put, call, or other option on one or more securities (as defined [by 15 U.S.C. 78c(a)(10)]), including any group or index of such securities, or any interest therein or based on the value thereof”).

² See OCC Rulebook Chapter XV.

³ OCC makes its STANS Methodology description available to Clearing Members. An overview of the STANS methodology is on OCC’s public website: <https://www.theocc.com/Risk-Management/Margin-Methodology>.

⁴ See OCC Rule 601.

base component and a concentration/dependence stress test add-on component. The base component is an estimate of a 99% expected shortfall⁵ over a two-day time horizon.

While OCC previously cleared binary options contracts, the STANS Methodology Description, which OCC filed as a rule in 2020, does not currently include a mechanism for calculating margin requirements for binary options. OCC did not include treatment for binary options because no Participant Exchanges listed binary products at the time OCC filed a proposed rule change to establish the STANS Methodology Description. Specifically, the STANS Methodology Description does not include a mechanism to calculate the price of binary options, which is a necessary pricer for calculating the base margin requirement for the products. OCC is therefore proposing to update its STANS Methodology Description to enable it to price and adequately calculate initial margin requirements for clearing member accounts that hold binary options positions.

OCC is proposing to price the binary options using the closed-form pricer under the Black-Scholes framework. Initially, OCC proposes to use the closed-form pricer with the forward price of the underlying asset and the implied volatility of the corresponding vanilla option to price a binary option. OCC will use an adjustment term to ensure that the resultant price of the binary option aligns with market price. The adjustment term captures the difference between the market price and the theoretical price using the implied volatility of the vanilla option. Furthermore, the adjustment term could be used to account for market prices for binary options potentially being out of the range of the closed-form pricer due to illiquidity or market frictions, particularly during the launch stage.

For margin calculations, the vanilla option implied volatility scenarios will be used as proxy. As trading volume increases and liquidity improves after the launch stage, OCC will consider transitioning to use the closed-form pricer and bid/ask prices to derive the implied volatility of the binary options. After transition to the mature stage,⁶ smoothing will be performed to construct the implied volatility surface, which will be used to generate the corresponding implied volatility scenarios for the margin calculations. The adjustment term will be kept for any minor price adjustment to align with the market, if necessary. Furthermore, such transition from the launch stage to mature stage would be subject to review and approval by

⁵ The expected shortfall component is established as the estimated average of potential losses higher than the 99% value at risk threshold. The term “value at risk” or “VaR” refers to a statistical technique that, generally speaking, is used in risk management to measure the potential risk of loss for a given set of assets over a particular time horizon.

⁶ For clarity, the transition from Launch Stage to Mature Stage will be managed separately for different binary options products. For a given product, the transition from Launch Stage to Mature Stage will be determined by the following considerations: (1) the trading activities of newly launched binary options, such as volume or number of contracts cleared at OCC; (2) the quality of market data of newly launched binary options, such as strike and maturity coverage, the range of bid-ask spreads, and price difference compared to the corresponding vertical spread formed by vanilla options; and (3) the outcomes (relative to the actual market data) from the proposed smoothing and pricing modeling approaches in the Mature Stage.

OCC's Model Risk Work Group ("MRWG")⁷ following review of the transition by OCC's Model Risk Management ("MRM") business unit.⁸

In accordance with OCC's existing Model Risk Management (MRM) Policy,⁹ OCC's independent MRM team validated the proposed approach for the launch stage and supported its use for binary options. MRM concluded that the proposal is consistent with the theories for replication of European binary options with vanilla options using a vertical spread. MRM further concluded that the additional adjustment term accounts for the implied volatility and market pricing differences, as different market participants may use different spreads. Because the primary risk factor for binary options is the underlying price movement, the validation tests performed by MRM show that the Black-Scholes based pricing model (together with adjustment term) will be effective at pricing the products, and generating the theoretical prices needed for margin calculations and stress testing.

Proposed Changes

In order to enable OCC to clear and risk manage binary options, OCC is proposing a number of changes to the STANS Methodology Description. OCC is proposing to add binary options to the list of FLEX and Exotic Options included in section 1.2.3 of the STANS Methodology Description. Specifically, OCC will state that "[b]inary options are a European-style option contract that are paid out if settlement value of the underlier is equal to or exceeds the exercise price in case of a call option or is less than the exercise price, in case of a put option. The underliers of binary options can be indexes, futures, equities, etc." Similarly, in section 2.3.1 of the STANS Methodology Description, OCC proposes to include binary options in the list of products that are supported by the implied volatility smoothing algorithm.

OCC is also proposing the necessary steps to apply its smoothing algorithm to binary options in section 2.3.1.3.1.¹⁰ Specifically, for smoothing using market quotes, OCC states it will find a set of prices that are closest to target prices and 1) are within the bid-ask constraints,¹¹

⁷ MRWG is a cross-functional group responsible for assisting OCC's management in overseeing OCC's model-related risk comprised of representatives from relevant OCC business units.

⁸ MRM is an independent team at OCC that is responsible for validating OCC's risk models and is not involved in developing or implementing the models.

⁹ 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.

¹⁰ OCC is also proposing to add the word "vanilla" to the first paragraph of section 2.3.1.3.1 to further clarify which options are being described in that paragraph.

¹¹ Prices within the bid-ask constraints refers to prices that are within the realistic trading range.

2) satisfy monotonicity constraints,¹² and 3) maintains the put-call parity of binary options¹³. Further, OCC treats out-of-the-money (OTM) binary options with strikes in the wings (far from the current spot price), so that the smoothed prices decay toward zero, reflecting their low probability of payoff. Similarly, in section 2.3.1.3.2, OCC proposes that for smoothing using last prices, OCC will find a set of prices that are closest to exchange prices and 1) satisfy monotonicity constraints and 2) maintains the put-call parity of binary options.

Finally, OCC is proposing to add section 2.3.5 titled “Binary Options.” The section describes the pricing process for binary options. Specifically, OCC is proposing to price binary options using a classic Black-Scholes options pricing framework. OCC is also proposing to use an adjustment term to account for differences between the market prices of binary options and the theoretical prices.

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

Core Principle D – Risk Management. Core Principle D requires DCOs to “ensure that the [DCO] possesses the ability to manage the risks associated with discharging the responsibilities of the [DCO] through the use of appropriate tools and procedures.” The Core Principle Further Requires “The margin required from each member and participant of a [DCO] shall be sufficient to cover potential exposures in normal market conditions.” Finally, Commission Regulation 39.13(g) requires in part that DCOs “have initial margin requirements that are commensurate with the risks of each product and portfolio, including any unusual characteristics of, or risks associated with, particular products or portfolios.”

OCC is proposing to update its STANS Methodology Description to enable it to price and adequately calculate initial margin requirements for clearing member accounts that hold binary options positions. Specifically, OCC is proposing to price binary options using a closed-form pricer under a Black-Scholes framework. OCC plans to adjust the theoretical price by an adjustment term to ensure that the resultant theoretical price of the binary option aligns with arbitrage-free market price that is within the range of bid and ask prices. Further, OCC’s MRM team performed a validation of the proposed approach and concluded that the

¹² Monotonicity means that prices move in a logically consistent direction with the strike price.

¹³ For binary options, put-call parity means that the sum of the price of a binary call option and the price of a binary put option with the same expiry and strike is the present value of one dollar at expiration.

approach will be effective at pricing the products to mid-market, and generating the theoretical prices needed for margin calculations and stress testing.

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.¹⁴

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/ [REDACTED]

[REDACTED]

Assistant General Counsel
The Options Clearing Corporation

Enclosure: Exhibit A

¹⁴ See Options Clearing Corporation (OCC) Rulemaking, https://www.theocc.com/getContentAsset/d2e88f2f-c08a-4413-abf2-7c949c0cc1bc/dfc3d011-8f63-43f6-9ed8-4b444333a1d0/sr_occ_2026_003.pdf?language=en-US