DCO Rules

UNITED STATES
COMMODITY FUTURES TRADING COMMISSION

Submitter Information	
Organization Name Options Clearing Corporation	
Organization Type DCO	**Organization Acronym** OCC
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Cover Sheet	
Submission Number 2608-0513-5148-30	**Submission Date** 8/5/2026 1:51:48 PM ET
Submission Type 40.6(a) Rule Certification	
Submission Description Rule Certification by The Options Clearing Corporation Concerning its Establishing a Commercial Paper Program	
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Date of Intended Implementation 8/19/2026	

Documents

Commercial Paper CFTC Self-Certification Filing 8 5 26.docx
CONFIDENTIAL OCC Commercial Paper Exhibit D CST Methodology Description.docx (Confidential Treatment Requested)
CONFIDENTIAL OCC Commercial Paper Exhibit E Capital Management Policy.docx (Confidential Treatment Requested)
CONFIDENTIAL OCC Commercial Paper Exhibit C Clearing Fund Methodology Policy.docx (Confidential Treatment Requested)
OCC Commercial Paper Exhibit A TPRMF.docx
CONFIDENTIAL OCC Commercial Paper Exhibit B LRMF.docx (Confidential Treatment Requested)
OCC Commercial Paper Exhibit 1 - Rules.docx
CONFIDENTIAL OCC Commercial Paper Exhibit F Default Management Policy.docx (Confidential Treatment Requested)
CONFIDENTIAL OCC Commercial Paper Exhibit G Cash and Investment Management Policy.docx (Confidential Treatment Requested)

Request For Confidential Treatment - Detailed Written Justification

2026-08-05 CFTC Confidential Treatment Request Commercial Paper.docx

OCC THE FOUNDATION FOR SECURE MARKETS®

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August 5, 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 it Establishing a Commercial Paper Program

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 OCC establishing a commercial paper program. 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:

<u>Explanation and Analysis</u>

The purpose of this rule certification is to establish a commercial paper program as part of its overall liquidity plan to meet OCC's settlement obligations. The proposed changes to OCC's Rules are included in Exhibit A. Proposed changes to OCC's Third-Party Risk Management Framework ("TPRMF"), Liquidity Risk Management Framework ("LRMF"), Clearing Fund Methodology Policy, Comprehensive Stress Testing & Clearing Fund Methodology, and Liquidity Risk Management Description ("CST Methodology Description"), Capital Management Policy, Cash and Investment Management Policy, and Default Management Policy are included as Exhibits A through F, respectively. 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 a CFTC registered derivatives clearing organization ("DCO") and the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Securities and Exchange Commission ("SEC"). In its role as a DCO, and as a registered clearing agency, OCC acts as a central counterparty ("CCP") that guarantees all contracts it clears. In its role as guarantor, OCC is exposed to risks from a Clearing Member's failure to fulfill its obligations, including liquidity risk (i.e., the risks that OCC may need to meet the defaulting Clearing Member's settlement obligations during the period between the default and the conclusion of a liquidation of the defaulting Clearing Member's portfolio). In the event of a Clearing Member default, OCC would be obligated to fulfill that member's cleared transactions and meet settlement obligations in a timely manner.

OCC manages liquidity risk by maintaining an overall liquidity plan that includes a minimum amount of cash OCC requires each Clearing Member to deposit in the Clearing Fund ("Clearing Fund Cash Requirement")[1] and any excess cash a Clearing Member may choose to maintain up to its required Clearing Fund contribution.[2] In addition, OCC maintains access to a diverse set of committed funding sources for accessing additional liquidity on a same-day basis, including: (A) a syndicated bank credit facility, through which OCC may borrow cash by pledging the margin funds of the defaulting Clearing Member or Government securities borrowed from the Clearing Fund;[3] and (B) a non-bank liquidity facility program, through which OCC may use Government securities deposited by the defaulting Clearing Member or borrowed from the Clearing Fund to enter into repurchase transactions with institutional investment counterparties, such as insurance companies and pension funds, that do not increase the concentration of OCC's counterparty exposure to its participants[4] (together with the syndicated bank credit facility, the "committed facilities").[5] Together, the Clearing Fund Cash Requirement and committed facilities

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1 See OCC Rule 1002.

2 Clearing Members may choose to satisfy their Clearing Fund requirement with more than the minimum amount of cash or deposit Government securities. See OCC Rule 1002(a). Substitution of U.S. Government securities in place of excess cash is subject to a two-day notification period, which aligns with OCC's liquidation time horizon for managing a Clearing Member default. See OCC Rule 1002(a)(iv). Accordingly, OCC considers excess cash up to the Clearing Member's Clearing Fund requirement as part of its "Available Liquidity Resources" under its Liquidity Risk Management Framework. See Exchange Act Release No. 89014 (June 4, 2020), 85 FR 35446, 35447 (June 10, 2020) (SR-OCC-2020-003).

3 See, e.g., Exchange Act Release No. 88971 (May 28, 2020), 85 FR 34257 (June 3, 2020) (SR-OCC-2020-804).

4 See, e.g., Exchange Act Release Nos. 89039 (June 10, 2020), 85 FR 36444 (June 16, 2020) (SR-OCC-2020-803).

5 OCC was provided a notice of no objection regarding establishing a repurchase agreement with a bank counterparty through which OCC may use Government securities deposited by the defaulting Clearing Member

comprise OCC's "Base Liquidity Resources" under its LRMF—i.e, the amount of qualifying liquid resources[6] OCC maintains at all times to satisfy its regulatory obligation to maintain sufficient qualifying liquid resources to cover payment obligations arising from the default of the CMO Group that would generate the largest aggregate payment obligation in extreme but plausible market conditions (a "Cover 1" liquidity requirement).[7]

To further diversify its liquidity resources, OCC proposes to establish a program to raise prefunded liquidity through the private placement of unsecured debt ("Notes") to institutional investors in an aggregate amount not to exceed $1 billion (the "Commercial Paper Program"). OCC would engage an issuing and paying agent, as well as certain placement agent dealers, to develop a program to issue the Notes. The Notes would be issued to institutional investors through a private placement and offered in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933.[8] OCC would execute certain agreements required to establish the Commercial Paper Program, including an issuing and paying agent agreement, and a dealer agreement with each of the placement agent dealers.[9] The dealer agreements would each be based on the standard form of dealer agreement for commercial paper programs, which is published by the Securities Industry and Financial Markets Association. The material terms and conditions of the Commercial Paper Program are summarized further below. Proceeds from the Commercial Paper Program would be held in an OCC account at the Federal Reserve Bank of Chicago (a "Federal Reserve Bank account").

OCC believes the Commercial Paper Program would further diversify its liquidity sources by adding a cost-effective means to source liquidity more efficiently than its current facilities in

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or borrowed from the Clearing Fund. See Exchange Act Release No. 103047 (May 21, 2025), 90 FR 21800 (May 21, 2025) (SR-OCC-2025-801).

6 Regulations applicable to OCC define "qualifying liquid resources" to include, among other things, (i) cash held either at the central bank of issue or at creditworthy commercial banks; and (ii) assets that are readily available and convertible into cash through prearranged funding arrangements, such as committed arrangements without material adverse changes provisions, including lines of credit and repurchase agreements. See 17 CFR 240.17ad-22(a) ("Qualifying liquid resources").

7 See 17 CFR 240.17ad-22(e)(7); 17 CFR 39.11(e).

8 15 U.S.C. 77d(a)(2).

9 Pursuant to the existing TPRMF, as approved by the SEC, OCC's Management Committee will determine whether these counterparties constitute service providers for core services within the meaning of Exchange Act Rule 17Ad-25, 17 CFR 240.17ad-25, during the on-boarding stage and prior to entering into any agreement. If these counterparties are determined to be service providers for core services, then: (1) the Management Committee will evaluate and document the risks related to the agreement, including under changes to circumstances and potential disruptions, and assess whether the risks can be managed in a manner consistent with the TPRMF; and (2) the agreements establishing a relationship with these counterparties would be subject to Board approval. See Exchange Act Release No. 34-104099 (Sept. 26, 2025), 90 FR 47105 (Sept. 30, 2025) (SR-OCC-2025-015).

response to changing liquidity demands or changes in its counterparties' commitments under the committed facilities. Specifically, once the program is established, OCC expects it will be able to issue new debt and receive proceeds on the same day. By comparison, sourcing additional commitments from liquidity providers through OCC's existing committed facilities is a process that can take weeks or months. Currently, the only tool available to OCC to increase Base Liquidity Resources on an expedited basis is to increase the Clearing Fund Cash Requirement under OCC Rule 1002(a)(i)(A). The Commercial Paper Program would add another tool for quickly increasing liquidity resources in response to changing liquidity needs.

In addition, the Commercial Paper Program would benefit OCC by providing a prefunded source of liquidity that OCC would maintain in one of its Federal Reserve Bank accounts. Accordingly, using proceeds from the Commercial Paper Program would not require OCC to draw on a facility during a Clearing Member default to make same-day settlement. The absence of a facility draw mitigates the risk that a liquidity provider may be delayed in funding or fail to fund as required under the terms of OCC's committed facilities.[10]

OCC's Board has authorized OCC to establish a Commercial Paper Program in an aggregate amount not to exceed $1 billion. Initially, OCC anticipates replacing $250 million of existing liquidity from its non-bank liquidity facility with Commercial Paper proceeds. Specifically, to further diversify OCC's liquidity resources, OCC plans to replace one of three commitments from a single liquidity provider that together comprise 42.5% of the commitments under the $2 billion non-bank liquidity facility, and approximately 19% of OCC's $4.5 million in committed facilities. Any expansion of the Commercial Paper Program beyond the $1 billion would require further approval from the Board. Any change to the program that would materially affect the nature or level of risk at OCC would also require further regulatory filings. OCC intends to structure the Commercial Paper Program such that maturities of the Notes are staggered to avoid concentration of maturing liabilities and the risk that a rollover issuance to replace expiring Notes does not fund. For example, replacing $250 million of non-bank liquidity facility commitments may be achieved with two issues of $250 million in Notes of 90-day duration, staggered by 45 days.

The Notes would be interest-bearing and would be book-entry notes evidenced by one or more master notes registered in the name of The Depository Trust Company ("DTC") or its nominee, in the form or forms annexed to OCC's agreement with the issuing and paying agent. To minimize interest rate risk,[11] the Notes would have a maturity not to exceed 180 days. The Notes

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10 OCC mitigates these risks under its committed facilities by executing committed arrangements without material adverse change provisions and conducting periodic test draws of its facilities.

11 In this context, interest rate risk is the risk of dislocation between the interest OCC pays on the Notes and the interest that OCC would earn by holding the cash proceeds in its Federal Reserve bank account. Such dislocation could increase OCC's costs for maintaining the Commercial Paper Program.

would not be redeemable by OCC prior to maturity, nor would they contain any provision for extension, renewal, automatic rollover or voluntary prepayment.

<u>Anticipated Effect on and Management of Risk</u>

As a DCO and a covered clearing agency, OCC's ability to meet settlement demands in the event of a Clearing Member default, or the failure of another participant to meet its obligations to OCC, is critical to the markets that OCC serves. OCC believes that the overall effect of the Commercial Paper Program on the risk profile at OCC would be to reduce liquidity risk associated with OCC's function as a covered clearing agency and DCO by providing it with an additional liquidity resource to meet same-day settlement demands in the event of a Clearing Member default or other scenario in which OCC may access its Clearing Fund under OCC Rule 1006. In addition, the Commercial Paper Program has a mix of benefits when compared with OCC's other liquidity resources. Like the Clearing Fund Cash Requirement, the Commercial Paper Program would be a prefunded source of liquidity, thus avoiding the operational risk of drawing on a committed facility when necessary to meet same-day settlement obligations. Also like the Clearing Fund Cash Requirement, OCC expects that the Commercial Paper Program would allow OCC to source new liquidity quickly and efficiently. However, unlike calling for additional cash from Clearing Members by increasing the Clearing Fund Cash Requirement, the Commercial Paper Program would not impose opportunity costs[12] on its Clearing Members. In addition, like OCC's non-bank liquidity facility, the Commercial Paper Program would not increase the concentration of OCC's credit risk to its participants. That is, by maintaining Commercial Paper Program proceeds as prefunded financial resources at a Federal Reserve Bank, OCC's liquidity sources would rely less on committed funding arrangements from financial institutions to which OCC faces credit risk through other relationships, including as Clearing Members, settlement banks, custodians or investment counterparties. As such, OCC believes that the addition of the Commercial Paper Program would strengthen OCC's liquidity risk management as part of a diverse set of liquidity sources.

The Commercial Paper Program, like any liquidity resource, would involve certain risks, most of which are standard in any commercial paper program. OCC has structured the proposed Commercial Paper Program to address: (1) repayment risk, (2) rollover risk, (3) interest rate risk, and (4) custody risk.

(1) *Repayment Risk*

In this context, repayment risk is the risk that OCC would not have access to sufficient financial resources to repay the face value of the issued Notes upon maturity. OCC believes that this risk is extremely remote because the proceeds of the Commercial Paper Program would be used only

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12 In this context, "opportunity costs" refers to Clearing Members' loss of potential gain when required to deposit cash with OCC rather than deploying their capital in some other way.

in the event of a Clearing Member default or other scenario in which the Clearing Fund may be charged under OCC Rule 1006. In the event of a Clearing Member default, OCC would replace the cash, as it would for any liquidity resource it utilized, with eligible proceeds from the liquidation of the defaulting Clearing Member's portfolio. OCC proposes to structure the Commercial Paper Program to mitigate repayment risk by providing authority under its Rules to charge or borrow from the Clearing Fund to obtain resources to pay the Notes upon maturity if OCC used the Commercial Paper Program proceeds to meet settlement demands. In addition, OCC proposes to amend its rules to include the Commercial Paper Program proceeds when calculating the minimum size of the Clearing Fund. Furthermore, as discussed above, the staggering of maturities would eliminate the risk that the Notes become due at one time. OCC believes that these measures ensure that OCC will have access to financial resources to repay the Commercial Paper Proceeds upon the maturity of the Notes.

(2) *Rollover Risk*

At the maturity of any Note, OCC would look to fund a new Note, i.e., "rollover" the Note. Rollover risk is the risk that a rollover of expiring Notes may not fund, leaving OCC without the liquidity provided by those Notes upon their expiration. As discussed above, OCC proposes to structure the Commercial Paper Program to manage rollover risk by staggering the maturities of the Notes it issues, thereby reducing a concentration in expiring Notes. The proposed rules would also allow the Board to cap the amount of Commercial Paper Program proceeds that could be counted towards OCC's Base Liquidity Resources. Such a cap would further mitigate the risk that a failure to rollover expiring Notes would reduce OCC's qualifying liquid resources below its Cover 1 liquidity requirement. In addition, OCC would mitigate this risk by maintaining a diverse set of other liquidity sources, including the Clearing Fund Cash Requirement and the committed facilities, thereby reducing the risk that OCC would be dependent on any one liquidity source.

(3) *Interest Rate Risk*

Interest rate risk is the risk that the interest rate that OCC would pay on the interest-bearing Notes may become dislocated from the interest rate that OCC earns by holding the Commercial Paper Program proceeds at the Federal Reserve. Such dislocation could increase OCC's costs for maintaining the Commercial Paper Program. OCC proposes to address such interest rate risk by limiting the duration of the Notes it issues to no more than 180 days. OCC's current plan is to begin issuing Notes with maturities of 90 days. Based on an analysis of 90-day commercial paper rates compared to the Interest Rate on Reserve Balances ("IORB") and the Interest Rate on Required Reserves ("IORR") over the last fifteen years, OCC believes that the impact of issuing the Notes on OCC's own financials would be minimal.

(4) *Custody Risk*

In this context, custody risk is the risk associated with safeguarding OCC's qualifying liquid resources and ensuring that OCC has prompt access to those resources to satisfy settlement demands on a same-day basis if needed. OCC proposes to structure the Commercial Paper Program to mitigate such custody risk by holding the Commercial Paper Program proceeds in one of its Federal Reserve Bank accounts. As part of the U.S. central banking system, the Federal Reserve Bank of Chicago, where OCC maintains its accounts, is among the safest and most sound depository institutions in the world. Accordingly, OCC believes that maintaining the Commercial Paper Program proceeds in its Federal Reserve bank account along with other qualifying liquid resources would appropriately safeguard those assets and minimize the risk of OCC's loss or delay in access to them. In addition, OCC would maintain the proceeds in cash and would not invest the proceeds in Government securities through overnight reverse-repurchase agreements, as it periodically invests its working capital and other permitted cash. Holding the proceeds in cash helps ensure that they will be available to meet settlement demands on a same-day basis, if needed.

Proposed Changes

In order to establish the Commercial Paper Program, OCC proposes to amend certain of its frameworks and policies that have been filed as rules in order to (1) recognize the proceeds from the Commercial Paper Program as a qualifying liquid resource, (2) ensure that OCC maintains sufficient funds to repay the Notes as they expire by incorporating the Commercial Paper Program proceeds into how OCC sizes its Clearing Fund and providing that OCC may use the Clearing Fund to repay the Notes if Commercial Paper Program proceeds are used to cover losses or liquidity shortfalls in lieu of the Clearing Fund, (3) distinguish the Commercial Paper Program proceeds from other types of prefunded financial resources that OCC maintains, (4) address the role played by the placement dealers and the issuing and payment agent and how OCC monitors and manages its relationships with these supporting institutions, (5) allow for OCC to maintain the proceeds in one of its Federal Reserve Bank accounts, and (6) provide for the governance to use the proceeds in the event of a Clearing Member default.

1) Qualifying Liquid Resources

OCC proposes to amend OCC's Rules and LRMF to recognize the proceeds from the Commercial Paper Program as a qualifying liquid resource under OCC's overall liquidity plan. Specifically, OCC would define the term "Commercial Paper Program" in Rule 101 as OCC's program to raise prefunded qualifying liquid resources through the private placement of unsecured debt to institutional investors up to an amount approved by the Board, proceeds of which OCC would use exclusively to: (i) repay maturing notes issued under the Commercial Paper Program or (ii) cover losses or liquidity shortfalls in those situations in which the Clearing Fund may be used under Rule 1006. This provision recognizes the Board's authority to set a cap on the total amount of

Commercial Paper that OCC is authorized to issue. As discussed above, the Board has initially approved the Commercial Paper Program for up to $1 billion, but OCC intends to begin issuing Notes in an amount less than the total authorized amount at the outset of the program.

OCC would amend the LRMF to add the cash proceeds from the Commercial Paper Program as one of the liquidity resources that may comprise OCC's Base Liquidity Resources. The LRMF would further provide that OCC may count such proceeds as Base Liquidity Resources up to an amount approved by OCC's Board. This provision would allow the Board to establish a cap on the amount of Commercial Paper Program proceeds that may be counted towards OCC's Base Liquidity Resources to account for the staggering of maturities and the potential risk that a rollover of expiring Notes may not fund, in which case OCC may need to pivot to other sources of liquidity. For example, if the Notes were staggered into two $500 million tranches with 90-day maturities staggered by 45 days, the Board may determine that up to $500 million of the total $1 billion may be counted towards Base Liquidity Resources. OCC anticipates that the Board would initially provide that Commercial Paper Program proceeds may not exceed 5% of Base Liquidity Resources. Any Commercial Paper Program proceeds beyond the amount authorized as Base Liquidity Resources would be considered excess liquidity. Such excess would mitigate the risk that a failed rollover of expiring Notes may otherwise cause OCC's qualifying liquid resources to drop below the Cover 1 liquidity requirement. The LRMF would provide that factors the Board may consider in setting the amount of Commercial Paper Program proceeds that may be counted towards Base Liquidity Resources include, but are not limited to, OCC's current or anticipated liquidity needs, the total size of the Commercial Paper Program that the Board has authorized, the staggering of maturity dates to address rollover risk, the availability of other liquidity resources, and the size of the Clearing Fund.

OCC would further amend the LRMF to address the Commercial Paper Program in the Framework's discussion of the tools available to OCC to increase its liquidity resources in response to changing business or market conditions. Currently, those tools include: (1) OCC's authority to temporarily increase the Clearing Fund Cash Requirement;[13] (2) the uncommitted accordion feature that OCC endeavors to maintain in its syndicated bank credit facility that potentially allows OCC to borrow additional funds from its existing or new bank syndicated liquidity providers based on the willingness and ability of the syndicate members to fund the additional borrowing request;[14] and (3) OCC authority under OCC Rule 609 to issue an intraday margin call based on a Clearing Member's forecasted settlement demands, including for settlement demands arising under OCC's accord with the National Securities Clearing Corporation ("NSCC").[15] To this list of tools, OCC would add that the Board may authorize a Commercial Paper Program that allows OCC to obtain additional liquidity up to the amount approved by the Board. Similar to the accordion feature of the syndicated

[13] See OCC Rule 1002(a)(i)(A).

[14] Exchange Act Release No. 88971, supra note 3, 85 FR at 34258 n. 6 and accompanying text.

[15] See Exchange Act Release No. 99735 (Mar. 14, 2024), 89 FR 19907 (Mar. 20, 2024) (SR-OCC-2023-007).

bank credit facility, OCC would note that its ability to secure additional proceeds up to that approved amount is subject to the ability of the dealers to place and the willingness of institutional investors to purchase any additional Notes. The LRMF currently notes that the process of obtaining additional liquidity through the accordion feature is expected to take a period of weeks. By comparison, OCC expects it can issue new debt and receive proceeds under the Commercial Paper Program on the same day.

2) Clearing Fund

In order to ensure that OCC maintains sufficient funds to repay the Notes as they expire, even if OCC uses the proceeds from the Commercial Paper Program to meet settlement demands in the event of a Clearing Member's default, OCC would amend Rule 1001(b) (Minimum Clearing Fund Size). Rule 1001(b) currently provides that the floor for the sizing of the Clearing Fund will be no less than 110% of the size of OCC's committed facilities plus the Clearing Fund Cash Requirement. OCC would amend Rule 1001(b) to add the proceeds from the Commercial Paper Program approved by the Board as Base Liquidity Resources to that list for purposes of calculating the minimum Clearing Fund size.[16] If OCC incurred a loss in a Clearing Member default, existing Rule 1006 authorizes OCC to charge such loss to the Clearing Fund. Accordingly, including the Commercial Paper Program proceeds authorized as Base Liquidity Resources when calculating the minimum Clearing Fund size helps ensure OCC maintains funds to cover such losses, like OCC does for its existing committed facilities. Because OCC plans to replace existing liquidity from its non-bank liquidity facility with Commercial Paper proceeds, the net effect on the calculation of the Minimum Clearing Fund Size would be zero. In any event, the Minimum Clearing Fund Size is not expected to determine the actual Clearing Fund size. Since the adoption of OCC's current Clearing Fund methodology in 2018, the Clearing Fund size has never been driven by the Minimum Clearing Fund Size.[17]

In connection with this change to Rule 1001, OCC would also amend OCC Rule 101 to define the term "Base Liquidity Resources," which is not a term currently used in the OCC Rules. The LRMF currently defines that term as "[t]he amount of committed liquidity resources maintained

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16 Separately, OCC also proposes to remove Interpretation and Policy ("I&P") .01 to Rule 1001. That I&P provides that the provision of Rule 1001(a) that limits the Clearing Fund size from decreasing by more than five percent from the prior month will not take effect until one month following the adoption of Rule 1001. Rule 1001 took effect on September 1, 2018, following the SEC's approval of that Rule. See Exchange Act Release No. 83735 (July 27, 2018), 83 FR 37855, 37856 n.6 (Aug. 2, 2018) (SR-OCC-2018-008). Accordingly, I&P .01 to Rule 1001 is no longer relevant and may be deleted.

17 As of December 31, 2024, the Minimum Clearing Fund Size was $15.95 billion. However, the actual Clearing Fund size as of that date was $18.49 billion, driven by stress test scenarios ("Sizing Stress Tests") in accordance with OCC Rule 1001(a). The Clearing Fund size may not decrease by more than 5% from the prior month. Accordingly, only a sustained reduction in shortfalls over an extended period would reduce OCC's Clearing Fund to the Minimum Clearing Fund size.

at all times by OCC to meet its minimum Cover 1 liquidity resource requirements under the applicable regulations." To better reflect the prefunded nature of the Commercial Paper Program proceeds, as well as the Clearing Fund Cash Requirement, OCC proposes to define that term in Rule 101 as the amount of qualifying liquid resources that OCC maintains at all times to meet its regulatory requirements. OCC would make the same change to the definition of the term "Base Liquidity Resources" in the LRMF and in the Executive Summary, as well as reference the definition in Rule 101. OCC would also amend the monthly Clearing Fund size computation and the associated definition for "Minimum Clearing Fund Size" in its Clearing Fund Methodology Policy to reflect the addition of Commercial Paper Program proceeds up to the amount approved by the Board as Base Liquidity Resources in the calculation of the minimum size of the Clearing Fund. Similar changes would also be applied to the articulation of that calculation in OCC's CST Methodology Description.

OCC also proposes to amend Rule 1006 (Purpose and Use of Clearing Fund) to ensure OCC's authority to use the Clearing Fund to make good losses or expenses that it suffers or provide liquidity to OCC as a result of OCC's use of the Commercial Paper Program proceeds for any of the purposes under Rule 1006. In connection with this change, OCC proposes to restate Rule 1006(a) (Conditions for Clearing Fund Use) for clarity. Specifically, OCC proposes to:

- Subdivide and renumber existing clauses (i) through (viii) into numbered paragraphs, consolidated and restated as addressed below.

- Consolidate under paragraphs (A) through (E) of proposed Rule 1006(a)(1) the conditions related to losses arising most directly from a Clearing Member default and OCC's default management currently found in existing clauses (i), (ii), (iv), (v) and (vi) of Rule 1006(a), respectively. Current clause (vii), which covers any other required payments or performance by a Clearing Member, would be addressed at the outset of proposed Rule 1006(a)(1) by noting that the Clearing Member performance obligations listed in that paragraph are without limitation.

- Consolidate the provisions related to a Clearing Fund borrowing currently found in the first and second sentences of current OCC Rule 1006(a) into OCC Rule 1006(a)(2).

- Renumber existing clause (iii)—related to Guaranty Substitution Payments—as proposed Rule 1006(a)(3). Proposed Rule 1006(a)(3) would be further amended to ensure parallel construction with the other paragraphs under Rule 1006(a) and to correct a typographical error.

- Renumber existing clause (viii)—related to the failure of any bank, securities or commodities clearing organization, or investment counterparty to perform its obligation to OCC when due—as proposed Rule 1006(a)(4). Proposed Rule 1006(a)(4) would be further amended to ensure parallel construction with the other paragraphs under Rule 1006(a), correct a grammatical error, and abbreviate a cross reference to another paragraph under Rule 1006.

- Include as Rule 1006(a)(5) the new authority related to use of the Clearing Fund with respect to the Commercial Paper Program.

- Remove unnecessary verbiage at the beginning of the last sentence of current Rule 1006(a), which would be renumbered as proposed Rule 1006(a)(6).

- Amend cross references in Rule 1006(h) to the current clauses under Rule 1006(a) to reflect the proposed paragraph structure.

3) Prefunded Financial Resources

OCC proposes to further amend the Clearing Fund Methodology Policy to exclude Commercial Paper Program proceeds from the definition of "Pre-Funded Financial Resources," as that term is used in that policy. The policy uses that term when measuring financial resources against stress test scenarios for purposes of monitoring the adequacy of OCC's financial resources to satisfy its regulatory obligations to maintain financial resources sufficient to withstand a default by the two CMO Groups[18] to which it has the largest aggregate credit exposures in extreme but plausible market conditions (a "Cover 2" credit requirement).[19] That definition currently encompasses the margin of the defaulting Clearing Member and the Clearing Fund, less any deficits. The definition excludes certain resources, such as OCC's assessment powers (i.e., Clearing Member resources that OCC can call upon, but are not pre-funded)[20] and OCC's own resources that it has committed to cover default losses (i.e., "skin-in-the-game"),[21] which OCC does not use when sizing or monitoring the adequacy of its Clearing Fund. While the Commercial Paper Program proceeds would be prefunded and maintained in a Federal Reserve Bank account, OCC would rely on the Clearing Fund to cover any loss associated with the use of those proceeds. Accordingly, since the Clearing Fund is already included in the definition, OCC proposes to exclude the Commercial Paper

18 "CMO Group" refers to the legal entity that is the Clearing Member and any other affiliate entities that control, are controlled by, or under common control with the Clearing Member.

19 See, e.g., 17 CFR 17ad-22(e)(4)(ii); 17 CFR 39.33(a)(1). OCC has not been designated a covered clearing agency that is systemically important in multiple jurisdictions or involved in activities that have a more complex profile. However, OCC has voluntarily opted to adopt a Cover 2 credit requirement as a covered clearing agency and a DCO that has elected to become a subpart C DCO. See Exchange Act Release No. 83406 (June 11, 2018), 83 FR 28018, 28021 (June 15, 2018) (SR-OCC-2018-008).

20 See OCC Rule 1006(h).

21 See, e.g., Exchange Act Release No. 92038 (May 27, 2021), 86 FR 29861 (June 3, 2021) (SR-OCC-2021-003) (approving changes to establish a persistent minimum amount of skin-in-the-game).

Program proceeds from its definition of Pre-Funded Financial Resources (which as noted above relates to OCC's Cover 2 monitoring).

OCC also proposes to amend its Capital Management Policy to distinguish the Commercial Paper Program proceeds from OCC's liquid net assets funded by equity ("LNAFBE").[22] The Capital Management Policy requires OCC to monitor OCC's LNAFBE for purposes of ensuring that OCC maintains sufficient funds to cover potential general business losses so that OCC can continue operations and services as a going concern if those losses materialize. However, the proceeds of the Commercial Paper Program would be used exclusively to address liquidity shortfalls arising from a Clearing Member default or other situation in which OCC may borrow or otherwise obtain funds using its Clearing Fund under OCC Rule 1006 and would not be used as working capital or to cover general business losses. Accordingly, OCC would exclude the cash proceeds of the Commercial Paper Program from the Capital Management Policy's definition of LNAFBE. This exclusion is consistent with the current exclusion of the Minimum Corporate Contribution, which is OCC cash maintained exclusively as skin-in-the-game to cover default losses or liquidity shortfalls.

4) Supporting Institutions

OCC also proposes to make certain other changes to its LRMF and TPRMF to clarify and distinguish its relationship with the dealers, agents and Noteholders under OCC's Commercial Paper Program from its existing relationship with liquidity providers under OCC's committed facilities. Specifically, those frameworks currently address OCC's exposure to liquidity providers in terms of the risk that those institutions would fail to perform their obligations to fund a draw under the contractual terms of their committed agreements with OCC. However, these risks would not be present under the Commercial Paper Program because the Commercial Paper Program proceeds would be prefunded and maintained by OCC in its Federal Reserve account, available to address losses or liquidity shortfalls without the need to draw on a committed arrangement. Accordingly, OCC would amend the LRMF and TPRMF to clarify that existing references to "liquidity providers" for purposes of monitoring and managing third-party risk are limited to the liquidity providers under OCC's committed facilities, not the dealers, agents or Noteholders under OCC's Commercial Paper Program. Specifically, OCC proposes to amend the LRMF and TPRMF to clarify that the definition of "liquidity provider" and existing provisions about the on-boarding, ongoing monitoring and off-boarding of liquidity providers, as that term is used therein or proposed to be defined, are limited to liquidity providers under OCC's committed facilities (i.e., counterparties providing liquidity to OCC under a committed line of credit or committed repurchase agreement), as is OCC's current practice. Such provisions would not extend to the Commercial Paper dealers, agent or Noteholders.

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22 Currently, the Capital Management Policy defines LNAFBE as the level of cash and cash equivalents, no greater than Equity, less any approved adjustments (e.g., agency-related liabilities such as Section 31 fees held by OCC and the Minimum Corporate Contribution).

Instead, OCC proposes to add a separate section to the LRMF that would describe OCC's relationship with those institutions supporting OCC's Commercial Paper Program. That section would note that OCC maintains relationships with placement dealers and an issuing and paying agent to support the Commercial Paper Program, and that the dealers' role is to effect the private placement of the Notes to the noteholders, while the issuing and paying agent acts as OCC's agent in connection with the issuance and payment of principal and interest on the Notes. The LRMF would further note that unlike OCC's relationship with liquidity providers under OCC's committed facilities, OCC is not reliant on the dealers or agent to execute a draw to meet same-day settlement obligations, as discussed above. In addition, the LRMF would provide that OCC would monitor and manage its relationship with the dealers and issuing and paying agent as "Financial Institutions" under the TPRMF, as that term is defined therein.

OCC would also amend the TPRMF to address how OCC monitors and manages its relationship with the dealers and issuing and paying agent. Specifically, OCC would amend the TPRMF to include the dealers and agent, and the role they play in supporting OCC's Commercial Paper Program, within the scope of Financial Institutions, which currently includes OCC's relationships with Clearing Banks, custodians, liquidity providers and investment counterparties. As such, the on-boarding and ongoing monitoring of such relationships would be subject to existing governance through OCC's Credit and Liquidity Risk Working Group ("CLRWG"), a cross-functional group comprised of representatives from relevant OCC business units including Treasury, Stress Testing and Liquidity, Collateral and Third-Party Risk Management. OCC believes that CLRWG is the appropriate internal working group for reviewing these relationships given its existing role in managing OCC's liquidity risks, resources and relationships.

5) Federal Reserve Account

OCC also proposes to amend its Rules and the Cash and Investment Management Policy to allow for the Commercial Paper Program proceeds to be held in one of its Federal Reserve Bank accounts. As part of OCC's designation as a systemically important financial market utility ("SIFMU") by the Financial Stability Oversight Council ("FSOC") on July 18, 2012, OCC is eligible pursuant to Section 806 of Title VIII of the Dodd-Frank Act to request the use of certain accounts and services of Federal Reserve Banks.[23] OCC has been approved by the Board of Governors of the Federal Reserve System to maintain a Federal Reserve Bank account to hold, among other things, cash deposits from its Clearing Members to satisfy margin, Clearing Fund requirements, and OCC's corporate funds.[24] However, I&P .04 to OCC Rule 1002 and OCC Rule

23 12 U.S.C. 5465.

24 See Federal Reserve Bank of Chicago authorization to provide accounts and services to Options Clearing Corporation and Chicago Mercantile Exchange, Inc., in accordance with the Dodd-Frank Act and Regulation HH, approved March 15, 2016 (https://www.federalreserve.gov/releases/h2/20160319/h2.pdf). OCC has also

604B impose certain restrictions on the manner in which OCC must hold Clearing Fund contributions and margin assets.[25] Consistent with these requirements, OCC's Federal Reserve Bank account in which it would maintain the Commercial Paper Program proceeds currently is limited to Clearing Fund contributions and certain non-customer cash margin assets.[26]

To safeguard the prefunded cash proceeds from the Commercial Paper Program, OCC proposes to amend I&P .04 to OCC Rule 1002 and OCC Rule 604B(c)(2) to allow OCC to maintain the Commercial Paper Program proceeds in the same Federal Reserve Bank account as the Clearing Fund cash and non-customer cash margin. Like the cash Clearing Fund contributions, the Commercial Paper Program proceeds are funds that OCC would use exclusively to manage a Clearing Member default or other event for which OCC is authorized to use Clearing Fund deposits under OCC Rule 1006. In addition, OCC believes that the ability to hold the Commercial Paper Program proceeds in its Federal Reserve bank account would be consistent with Commission rules for covered clearing agencies that encourage the use of central bank services to conduct money settlements,[27] custody qualifying liquid resources,[28] and enhance management of liquidity risk.[29] Accordingly, OCC believes holding these funds together with the Clearing Fund cash in a Federal Reserve Bank account is both prudent and supported by applicable regulatory requirements. OCC intends to establish a subaccount under its master Federal Reserve Bank account to segregate the Commercial Paper Program proceeds from other funds maintained in the master account.

In connection with the above changes to OCC's Rules, OCC would also amend its Cash and Investment Management Policy. Specifically, OCC would update that policy to recognize the Commercial Paper Program proceeds would be a form of OCC cash, as opposed to Clearing Member cash. As defined in the Cash and Investment Management Policy, OCC's cash includes, among other things, working capital cash related to future operating costs, inclusive of financial resources held to meet liquidity and resiliency requirements. In contrast, Clearing Member cash is cash received from and held by OCC on behalf of its Clearing Members, including Clearing Fund

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been approved to maintain two additional accounts to serve as customer segregated accounts as defined under Section 4d of the Commodity Exchange Act. Since these accounts are segregated margin accounts, the change discussed herein does not impact these accounts.

25 See OCC Rule 604B(c) (providing authority to commingle funds held by the Corporation as non-customer margin assets in a Federal Reserve bank account with cash Clearing Fund contributions); OCC Rule 1002, I&P .04 (providing authority to commingle cash Clearing Fund contributions in a Federal Reserve bank account with non-customer margin assets).

26 See Exchange Act Release No. 90100 (Oct. 6, 2020), 85 FR 64603 (Oct. 13, 2020) (SR-OCC-2020-010) (approving proposed rule changes to allow OCC to commingle certain non-customer margin assets with Clearing Fund contributions in OCC's Federal Reserve bank account).

27 17 CFR 240.17ad-22(e)(9).

28 17 CFR 240.17ad-22(a) ("Qualifying liquid resources").

29 17 CFR 240.17ad-22(e)(7)(iii).

cash, margin cash, cash held in liquidating settlement accounts, proceeds from OCC's liquidity facilities, and investments made with Clearing Member cash. Since the Commercial Paper Program proceeds are obtained through OCC's issuance of unsecured debt, such proceeds are a form of OCC cash. However, unlike other OCC cash, which OCC maintains at creditworthy commercial banks and may invest in Government securities through reverse repurchase agreements with investment counterparties, the policy would provide that the Commercial Paper Program proceeds would be held exclusively at a Federal Reserve Bank and would not be invested. The policy would further provide that interest earned on Commercial Paper Program proceeds held at a Federal Reserve Bank will accrue to the benefit of OCC. Such accrued interest would help to partially offset OCC's costs to issue the interest-bearing Notes.

6) Default Management

OCC also proposes to amend its Default Management Policy to provide for the governance process for using Commercial Paper Program proceeds in the event of a Clearing Member suspension, settlement bank failure, or other situation in which OCC may need to draw upon its Clearing Fund to cover losses or liquidity shortfalls. In such events, the policy provides that the Chairman, Chief Executive Officer ("CEO") or Chief Operating Officer ("COO") have authority under OCC Rule 1006 to authorize OCC's Treasury office within its Finance Department to draw on OCC's committed liquidity facilities or borrow cash deposits maintained in the Clearing Fund as necessary. In actuality, OCC Rule 1006(f)(2)(A)(iii) currently provides that OCC may use funds it takes possession of under Rule 1006(f) to borrow or otherwise obtain funds through any means determined to be reasonable at the discretion of the Chairman, CEO or COO. OCC's Office of the Chief Executive Officer ("OCEO"), currently comprised of the CEO and COO, has already determined that drawing on an existing committed liquidity facility or borrowing Clearing Fund cash deposits are reasonable means to borrow or otherwise obtain funds under Rule 1006 in such events. The Default Management Policy would be amended to note this determination, in place of the current statement about what OCC Rule 1006 authorizes.

With respect to approving a particular borrowing or draw, OCC would further amend the Default Management Policy to provide that the OCEO, OCC's Chief Financial Risk Officer ("CFRO"), Chief Risk Officer ("CRO"), or their delegates may authorize OCC's Treasury, a business unit within the Finance Department, to initiate a draw from OCC's committed facilities or borrow cash deposits maintained in the Clearing Fund to meet settlement obligations. OCC believes that expanding the universe of the senior managers or their delegates who are authorized to approve such measures is prudent to mitigate the operational risk that one or more of those individuals would not be available to approve such a time-sensitive request. If those individuals were unavailable to approve the request, OCC may not be able to obtain the funds in a timely enough manner and may need to extend settlement obligations under OCC Rule 505. In addition, OCC would amend the Default Management policy to provide that the same individuals would have the authority to approve the use of Commercial Paper Program proceeds in such situations. The Default

Management Policy would further provide that any other means of borrowing or otherwise obtaining funds requires approval from the Chairman, CEO or COO, consistent with the determination required under OCC Rule 1006(f).

7) Administrative Changes

OCC also proposes to make certain non-substantive changes and corrections to its rules for clarity, including:

- OCC would add titles (i.e., "Clearing Fund Cash Requirement," "Commercial Paper Program" and "Committed Facilities") to the descriptions in a list of qualifying liquid resources that count as Base Liquidity Resources in the LRMF.

- OCC would correct a cross-reference to the definition of the term "qualifying liquid resources" in the LRMF to conform with amendments to the Covered Clearing Agency Standards that removed the numbering of definitions under Exchange Act Rule 240.17Ad-22(a).[30]

- Where the LRMF, TPRMF or Cash and Investment Management Policy define terms at an earlier point in the document, OCC would carry those defined terms through the remainder of the document, as appropriate.

- Consistent with respect to other policies and frameworks,[31] OCC would remove the version number from the Cash and Investment Management Policy. Such version numbers do not constitute a rule and are instead reflected in an internal system of record that OCC uses to manage its policy governance.

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:

Financial Resources. DCO Core Principle A, in relevant part, requires that a DCO shall have adequate financial resources to discharge each responsibility of the DCO, and that a DCO shall maintain sufficient financial resources to cover its exposures with a high degree of confidence and at

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30 See Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714, 2829 (S7-23-22).

31 See Exchange Act Release No. 93436 (Oct. 27, 2021), 86 FR 60499, 60501 (Nov. 2, 2021) (SR-OCC-2021-010)

a minimum enable it to meet its financial obligations to its clearing members notwithstanding the default by the clearing member creating the largest financial exposure to the DCO in extreme but plausible market conditions,[32] and for systemically important derivatives clearing organizations to withstand a default by the two clearing members creating the largest combined financial exposure.[33] Further, DCOs are required to maintain sufficient liquid resources such that it can, at a minimum, fulfill its cash obligations when due and a DCO must hold assets in a manner where the risk of loss or of delay in its access to them is minimized.[34] As described above, the proposed change would allow OCC to establish its Commercial Paper Program, which would in turn help OCC diversify its existing sources of liquidity. Establishing a Commercial Paper Program would provide OCC with another prefunded qualifying liquid resource that would enable it to continue to meet its obligations in a timely manner and address OCC's liquidity demands under stressed or volatile market conditions. As discussed above, OCC believes the Commercial Paper Program would not only further diversify its liquidity sources, but would also have the added benefit of adding a cost-effective means to source liquidity more efficiently than its current facilities in response to changing liquidity demands or changes in its counterparties' commitments under the committed facilities. Different from its other committed funding sources where sourcing additional commitments from liquidity providers can take weeks or months, once the program is established, OCC expects it will be able to issue new debt and receive proceeds on the same day, which would help minimize the risk of delay in sourcing additional liquidity. Further, OCC proposes to maintain the proceeds of the Commercial Paper Program in U.S. dollars, the currency in which OCC conducts its settlements, held in a Federal Reserve Bank account along with other qualifying liquid resources, which also helps mitigate any custody risk of maintaining such assets, and would minimize risk of loss or delay in accessing such funds.

Risk Management. DCO Core Principle C requires that a DCO must have and implement written policies, procedures, and controls, approved by its Board, that establish an appropriate risk management framework.[35] Further, a DCO must limit its exposure to potential losses from defaults by its clearing members through, in relevant part, other risk control mechanisms reasonably designed to ensure that the operations of the DCO would not be disrupted.[36] OCC's proposed changes to its Rules and rule-filed policies, as described above, help OCC fulfill the responsibility to have written policies, approved by its Board, that establish an appropriate risk management framework. Also, as discussed above, OCC believes that the overall effect of the Commercial Paper Program on the risk profile at OCC would be to reduce liquidity risk associated with OCC's function

[32] 17 CFR 39.11(a).

[33] 17 CFR 39.33(a)(1).

[34] 17 CFR 39.11(e)(1)(i).

[35] 17 CFR 39.13(b).

[36] 17 CFR 39.13(f)(1).

as a covered clearing agency and DCO by providing it with an additional liquidity resource to meet same-day settlement demands in the event of a Clearing Member default or other scenario in which OCC may access its Clearing Fund under OCC Rule 1006. In addition, the Commercial Paper Program has a mix of benefits when compared with OCC's other liquidity resources. Like the Clearing Fund Cash Requirement, the Commercial Paper Program would be a prefunded source of liquidity, thus avoiding the operational risk of drawing on a committed facility when necessary to meet same-day settlement obligations. Also like the Clearing Fund Cash Requirement, OCC expects that the Commercial Paper Program would allow OCC to source new liquidity quickly and efficiently. In addition, like OCC's non-bank liquidity facility, the Commercial Paper Program would not increase the concentration of OCC's credit risk to its participants. That is, by maintaining Commercial Paper Program proceeds as prefunded financial resources at a Federal Reserve Bank, OCC's liquidity sources would rely less on committed funding arrangements from financial institutions to which OCC faces credit risk through other relationships, including as Clearing Members, settlement banks, custodians or investment counterparties. As such, OCC believes that the addition of the Commercial Paper Program would strengthen OCC's liquidity risk management as part of a diverse set of liquidity sources.

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.[37]

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 1, and Exhibits A-F of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

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37 See Options Clearing Corporation (OCC) Rulemaking, SR-OCC-2026-005.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

/s/ [redacted]

[redacted], Associate General Counsel
The Options Clearing Corporation

Enclosure:

Exhibit 1	Rules
Exhibit A	Third Party Risk Management Framework
Exhibit B	Confidential Exhibit - Liquidity Risk Management Framework
Exhibit C	Confidential Exhibit - Clearing Fund Methodology Policy
Exhibit D	Confidential Exhibit - CST Methodology Description
Exhibit E	Confidential Exhibit - Capital Management Policy
Exhibit F	Confidential Exhibit – Default Management Policy
Exhibit G	Confidential Exhibit - Cash and Investment Management Policy

<u>Exhibit 1</u>

Rules

<u>Underlying</u> text indicates additions.

~~Strikethrough~~ text indicates deletions.

Chapter I – Definitions

RULE 101 – Definitions

Unless the context otherwise requires, for all purposes of these rules, the terms herein shall have the meanings given them in Article I of the By-Laws of the Corporation or as set forth below:

* * *

B.

* * *

Base Liquidity Resources
The amount of qualifying liquid resources that the Corporation maintains at all times to meet its regulatory requirements.

C.

* * *

Commercial Paper Program
The term "Commercial Paper Program" means the Corporation's program to raise prefunded qualifying liquid resources through the private placement of unsecured debt to institutional investors up to an amount approved by the Board, proceeds of which the Corporation would use exclusively to: (i) repay maturing notes issued under the Commercial Paper Program or (ii) to cover losses or liquidity shortfalls in those situations in which the Clearing Fund may be used under Rule 1006.

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Chapter VI – Margins

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RULE 604B – Holding and Investing Margin Assets

* * *

(b) *Margin Deposits*.

* * *

(2) *Approved Depositories*

(A) The Corporation will hold margin funds, other than margin funds excluded by Rule 604B(b)(2)(B), in an account or accounts, designated as Clearing Member margin accounts, to the credit of the Corporation with such banks, trust companies or other depositories as the Board of Directors may approve.

(B) Rule 604B(b)(2)(A) does not apply to:

(i) cash margin assets invested by the Corporation pursuant to Rule 604B(g);

(ii) funds credited by the Corporation to a Liquidating Settlement Account pursuant to Chapter XI;

(iii) non-customer margin assets maintained in an account at a Federal Reserve Bank pursuant to Rule 604B(c)(2).

(C) The Board of Directors may approve a securities depository under irrevocable arrangements that:

(i) permit the securities to be promptly sold by or on the order of the Corporation for the account of the Clearing Member without notice and;

(ii) (ii) require the Clearing Member to pay all fees and expenses incident to the ownership or sale of the securities or the arrangement with the depository.

(D) The Corporation will not accept the deposit of securities from an approved depository if such depository, a parent, or an affiliate has an equity interest in the amount of 20% or more of the depositing Clearing Member's total capital.

(c) *Commingled Funds*.

(1) The Corporation will not commingle margin assets with the Corporation's own funds or use margin assets as working capital.

(2) Notwithstanding Rule 604B(c)(1), the Corporation may commingle non-customer margin funds with cash Clearing Fund contributions and proceeds from the Corporation's Commercial Paper Program and deposit such funds to the credit of the Corporation in an account at a Federal Reserve Bank that is not designated as a Clearing Member margin account.

(3) The Corporation may commingle funds and securities held as margin for the account of any Clearing Member with funds and securities held as margin for other Clearing Members.

* * *

Chapter X – Clearing Fund Contributions

* * *

RULE 1001 – Size of Clearing Fund

(a) *Clearing Fund Size*. The size of the Clearing Fund shall be established on a monthly basis at an amount determined by the Corporation to be sufficient to protect the Corporation against losses stemming from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure for the Corporation under stress test scenarios that represent extreme but plausible market conditions ("Sizing Stress Tests"). Such Sizing Stress Tests shall be supplemented by additional historical or hypothetical stress test scenarios ("Sufficiency Stress Tests") and, in the event Sufficiency Stress Tests call for a larger Clearing Fund size, the Clearing Fund shall be re-sized based on such Sufficiency Stress Test pursuant to paragraph (c) of this Rule 1001. The size of the Clearing Fund for a given month shall not decrease by more than five percent from the prior month.

(b) *Minimum Clearing Fund Size*. Notwithstanding paragraph (a) of this Rule 1001, in no event ~~shall~~will the size of the Clearing Fund be less than 110% of the size of the committed liquidity facilities of the Corporation plus Commercial Paper Program proceeds up to the amount approved by the Board as Base Liquidity Resources plus the Clearing Fund Cash Requirement (as defined in Rule 1002(a)).

* * *

~~**. . . *Interpretations and Policies:***~~

~~**.01** Notwithstanding any other provisions of this Rule 1001, the last sentence of Rule 1001(a) shall not take effect for a period of one month following the adoption of this Rule.~~

RULE 1002 – Clearing Fund Contributions

* * *

(c) *Investment of Cash*. Cash contributions to the Clearing Fund may from time to time be partially or wholly invested by the Corporation for its account in Government securities, and to the extent that such contributions are not so invested they shall be deposited by the Corporation in a separate account or accounts for Clearing Fund contributions in approved custodians, provided that such account or accounts may commingle the Clearing Fund contributions of different Clearing Members. Interest earned on cash deposits held at a Federal Reserve Bank shall accrue to the benefit of Clearing Members (calculated daily based on each Clearing Member's pro rata share of Clearing Fund cash deposits), provided that each such Clearing Member has provided OCC with all tax documentation as OCC may from time to time require in order to effectuate such payment, and all other interest earned on investments will accrue to the benefit of the Corporation.

* * *

. . . *Interpretations and Policies:*

* * *

.04 Notwithstanding the requirement in the first sentence of Rule 1002(c), cash Clearing Fund contributions deposited in an account of the Corporation at a Federal Reserve Bank may be commingled with non-customer margin assets and proceeds from the Corporation's Commercial Paper Program as provided in Rule 604B(c)(2).

* * *

RULE 1006 – Purpose and Use of Clearing Fund

(a) *Conditions for Clearing Fund Use*. ~~The Clearing Fund may be used for borrowings pursuant to the authority in Rule 1006(f). The Clearing Fund may also be used~~ The Corporation may use the Clearing Fund only to:

(1) ~~to make~~ Make good losses or expenses suffered by the Corporation ~~or losses suffered by the Clearing Fund resulting from borrowings pursuant to the authority in Rule 1006(f): (i)~~ as a result of the failure of any Clearing Member to discharge duly any obligation including,

without limitation, ~~on or~~ any obligation:

(A) arising from any confirmed trade accepted by the Corporation~~,~~;

(~~ii~~B) as a result of the 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~~,~~;

(C) as a result of the 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;

(D) in connection with any liquidation of a Clearing Member's open positions; or

(E) in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules.

(2) Provide liquidity to the Corporation through a borrowing or make good losses or expenses suffered by the Corporation or losses suffered by the Clearing Fund resulting from a borrowing under Rule 1006(f).

~~(iii)~~(3) ~~regarding~~ Satisfy any Guaranty Substitution Payment that that the Corporation may make to the correspondent clearing corporation under an agreement between them, as described in Rule 901, so that the correspondent clearing corporation will not reject settlement obligations for CCC-eligible securities involving a Clearing Member that the Corporation has suspended, as described in Rule 1102, and for which the correspondent clearing corporation has ceased to act, and that the Corporation directs to the correspondent clearing corporation for settlement through its facilities. ~~,(iv) as a result of the 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, (v) in connection with any liquidation of a Clearing Member's open positions, (vi) in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules, (vii) as a result of the failure of any Clearing Member to make any other required payment or render any other required performance, or~~

~~(viii)~~(4) Make good losses or expenses suffered by the Corporation or provide liquidity to the Corporation as a result of the failure of any bank, securities or commodities clearing organization, or investment counterparty to perform its obligations to the Corporation for reasons specified ~~paragraph (c) of this~~under Rule 1006(c).

(5) Make good losses or expenses suffered by the Corporation or provide liquidity to the Corporation as a result of the Corporation's use of proceeds of the Commercial Paper Program for any of the other purposes under this Rule.

(6) ~~Notwithstanding the foregoing, in the event that the Corporation performs a Voluntary Tear-Up or a Partial Tear-Up pursuant to Rule 1111, the Clearing Fund may be used to provide~~ Provide compensation to non-defaulting Clearing Members and their customers as a means of re-allocating the losses, costs and fees imposed upon them as a result of ~~such~~ a

Voluntary Tear-Up or Partial Tear-Up, but only to the extent that such losses, costs and fees can be reasonably determined by the Corporation.

* * *

(h) *Making Good of Charges to the Clearing Fund*.

* * *

(B) *Cooling-Off Period; Assessments*. Notwithstanding anything in this Rule 1006(h) and except as provided for below, if an amount is paid out of the Clearing Fund as a result of a proportionate charge under Rule 1006(b) resulting from any of the events described in paragraphs (1) and (3) of ~~clauses (i) through (vi) of~~ Rule 1006(a), then starting on the date of such proportionate charge there shall automatically commence a cooling-off period during which a Clearing Member will not be liable to make good more than an additional 200% of the amount of its then required contribution (for definitional purposes, amounts in excess of a Clearing Member's then required contribution shall be "assessments"). The cooling-off period shall be fifteen consecutive calendar days from the date of such proportionate charge; provided however, that if one or more subsequent events described in ~~clauses (i) through (vi)~~ paragraphs (1) and (3) of Rule 1006(a) occur during the fifteen-day period and result in one or more proportionate charges against the Clearing Fund, the cooling-off period shall be extended through (i) the fifteenth calendar day from the date of the most recent proportionate charge resulting from the subsequent event, or (ii) the twentieth calendar day from the date of the initial proportionate charge, whichever is sooner. After the cooling-off period ends, Clearing Members shall not be liable for any deficiency arising from losses or expenses suffered by the Corporation as a result of any event described in ~~clauses (i) through (vi)~~paragraphs (1) and (3) of Rule 1006(a) that occurred during the cooling-off period. Each Clearing Member shall have and shall at all times maintain the ability to make good any deficiency described in this Rule 1006(h) by the first Settlement Time following notification to the Clearing Member of such deficiency or such later time as provided by the Corporation.

Exhibit A

TPRMF

Underlying text indicates additions.

~~Strikethrough~~ text indicates deletions.

Third-Party Risk Management Framework

Effective Date:	~~11/18/2025~~ [TBD]
Board Approval:	Risk Committee

I. EXECUTIVE SUMMARY

As a central counterparty, The Options Clearing Corporation ("OCC") is exposed to risks arising from its Third-Party relationships. This Third-Party Risk Management Framework ("Framework") outlines OCC's approach to identify, measure, monitor, and manage risks arising from Third-Party relationships including:

- Clearing Members
- Clearing Banks, custodians, liquidity providers under OCC's committed facilities, dealers and agents supporting OCC's Commercial Paper Program, and investment counterparties ("Financial Institutions")
- Financial market utilities ("FMUs")[1]
- Exchange Relationships
- Vendors

This Framework is approved by the Risk Committee of OCC's Board of Directors ("Risk Committee") at least annually and implemented by the Management Committee ("MC").

II. RISK IDENTIFICATION

OCC faces risks associated with its Third-Party relationships, including:

Financial risks arise from a Clearing Member failing to meet its financial obligations to OCC including, but not limited to, obligations related to settlement, margin, and clearing fund. OCC may also face financial risks from other Third-Parties not meeting their obligations to OCC, including, but not limited to, facilitating daily settlements, providing timely access to collateral, honoring liquidity draw requests, or meeting obligations under an agreement.

Operational risks arise from errors, disruptions, failures, or the inability of a Third-Party to fulfill its obligations to OCC. These risks include a Third-Party disruption preventing OCC from completing trade processing, daily settlements, accessing collateral, or safeguarding OCC property, equipment, or personnel.

General Business Risk arise when a Third-Party is unable to fulfill its obligations due to events or disruptions from the Third-Partys' administration and operation of its business resulting in a loss to OCC.

Information Technology and Security risks arise when a Third-Party is unable to safeguard OCC systems or data or maintain capabilities or services to support OCC's operations in accordance with OCC's service standards.

Legal and Regulatory risks arise when a Third-Party fails to fulfill its obligations to OCC or OCC fails to fulfill its obligations to a Third-Party. These risks also arise when a Third-Party fails to comply with

[1] FMUs may include any person that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among Financial Institutions or between Financial Institutions and the person.

regulatory standards and protocols agreed to with OCC. They also include exposure to potential litigation or regulatory compliance concerns.

III. THIRD-PARTY RELATIONSHIP LIFECYCLE

OCC's relationship lifecycle is designed to identify, measure, monitor, and manage Third-Party risks. The lifecycle consists of three stages.

- **On-Boarding** – Third-Parties are evaluated to determine whether they can engage in or expand a relationship with OCC. After evaluation, OCC completes any operational tasks necessary to activate the relationship.

- **Ongoing Monitoring** – Third-Parties are monitored for compliance with standards, the presence of additional or increased risks, and fulfillment of contractual obligations. Ongoing monitoring is conducted based upon the nature of each relationship and is commensurate with the risks posed by the Third-Party.

- **Off-Boarding** – Third-Party relationships may terminate. Following the termination of a relationship, OCC completes any operational tasks necessary to off-board the relationship in compliance with agreement terms.

In addition to the lifecycle management processes set forth above, certain Third-Parties may constitute Service Providers for Core Services and are subject to enhanced lifecycle management by both the MC and the Board. Enhanced lifecycle management includes:

- **On-Boarding:** Prior to entering into an agreement with a Service Provider for Core Services, the MC will evaluate and document the risks related to the agreement, including under changes to circumstances and potential disruptions, and assess whether the risks can be managed in a manner consistent with this Framework (the "Risk Analysis"). Prior to entering agreements establishing a relationship with a Service Provider for Core Services, the MC will submit the agreement, along with the Risk Analysis, to the Board of Directors for review and approval.

- **Ongoing Monitoring:** Service Providers for Core Services are monitored on an ongoing basis. The MC evaluates performance of Service Providers for Core Services and either: (a) remedies significant deterioration in performance of the Service Provider for Core Services, (b) addresses changing risks or material issues with the Service Provider for Core Services identified through such monitoring, or (c) if such risks or material issues cannot be remedied, documents weaknesses or deficiencies with the Service Provider for Core Services. The MC will report to the Board for its evaluation any action taken by the MC to remedy significant deterioration in performance of the Service Provider for Core Services or address changing risks or material issues with the Service Provider for Core Services. If the risks or issues with the Service Provider for Core Services cannot be remedied, the MC will assess and document the weaknesses and deficiencies and submit to the board the documented weaknesses or deficiencies in the relationship with the Service Provider for Core Services.

Third-Parties that have multiple engagements with OCC are subject to the processes described below for each type of engagement. OCC recognizes that multiple engagements with a single entity may result in additional risks (as identified in Section II) and incorporates this into its on-boarding and ongoing monitoring through their respective procedures (as identified in each Third-Party type below) and working groups.

As described below, risks identified throughout the relationship lifecycle are reported and escalated through associated working groups. Working groups are cross-departmental and support OCC's business as assigned by the MC. Each working group has a chair and designated MC member who are responsible to determine the matters to be escalated to the MC in accordance with this Framework. The working groups identified in this Framework have defined decision-making authority, functions and responsibilities as specified in the associated working group procedure. The working groups that support the activities described in this Framework are:

- Credit and Liquidity Risk Working Group ("CLRWG")
- Exchange and Vendor Working Group ("EVWG")

IV. THIRD-PARTY RELATIONSHIP MANAGEMENT

A. Clearing Members

OCC's membership standards are designed to be objective and risk-based and are publicly disclosed in OCC's Rules and By-Laws. Annually, Business Operations, Financial Risk Management ("FRM"), Treasury, and Third-Party Risk Management ("TPRM") assess the adequacy of OCC's membership standards to address the management of risks presented by Clearing Members and the processes used to monitor initial and ongoing compliance with those standards, in accordance with the Credit and Liquidity Risk Working Group Procedure. The review may contain recommendations to change the standards or monitoring processes. The results of the annual assessment are summarized for consecutive review and approval by the CLRWG, MC, Risk Committee, and if rule changes are necessary, the Board of Directors.

On-Boarding: Business Operations, FRM, and TPRM complete a risk-based evaluation of Clearing Member applicants by evaluating their financial resources, operational capacity, personnel, and facilities against OCC's membership standards. FRM presents the results of this evaluation to the CLRWG and other key stakeholders as identified within OCC Rule 203(a) for review and approval.

Ongoing Monitoring: Clearing Members are monitored for ongoing compliance with OCC's membership standards. FRM, with support from Business Operations and TPRM, performs Watch Level reporting and ongoing monitoring of financial and operational risks. In addition to or in support of Watch Level reporting, Business Operations and FRM conduct the following processes to monitor Clearing Members:

- Determining an internal credit rating to identify credit worthiness;
- Performing periodic examinations to evaluate Clearing Member risk management policies, procedures, and practices; and
- Evaluating material risks related to customers of Clearing Members.

FRM provides informational Watch Level reporting at meetings of the CLRWG, MC, and Risk Committee that summarizes the circumstances leading to violations of higher tier Watch Level criteria, additional risks observed, and any corrective measures taken by such Clearing Members.

Should a Clearing Member approach or no longer meet minimum membership standards, protective measures may be imposed to limit or eliminate OCC's counterparty exposure. OCC maintains authorities in its Rules (Chapter III, Chapter VI, and Chapter VII) to act to protect OCC, given the facts and circumstances of the exposure presented by a Clearing Member, including but not limited to the imposition of additional monitoring, changes to margin requirements or composition, or suspension of some or all product and account approvals.

Business Operations, FRM, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of Clearing Member financial, operational, legal, and regulatory risks and may raise matters for consideration to the CLRWG. The CLRWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the Credit and Liquidity Risk Working Group Procedure.

Off-Boarding: A Clearing Member may voluntarily terminate its membership. Upon request for termination, Business Operations and FRM ensure all financial exposures and operational capabilities are wound down and all obligations to OCC are satisfied before the relationship is terminated. In the event a Clearing Member is suspended by OCC, the suspension will be managed in accordance with the Default Management Policy.

B. ~~Clearing Banks, Custodians, Liquidity Providers, and Investment Counterparties~~ Financial Institutions

OCC maintains relationships with Financial Institutions that facilitate clearance and settlement activities, manage collateral, provide liquidity under OCC's committed facilities, support OCC's Commercial Paper Program and serve as investment counterparties.

On-Boarding: FRM and TPRM, with support as needed from Business Operations and Treasury, complete a risk-based evaluation of each entity by evaluating its financial resources and operational capacity. For custodians, the evaluation considers whether a relationship is structured to allow prompt access to OCC and Clearing Member assets and whether the custodian is a supervised and regulated institution that adheres to generally accepted accounting practices, maintains safekeeping procedures, and has controls that fully protect these assets. The results of the evaluation are presented to the CLRWG for review and recommendation for approval prior to presentation to the Chief Executive Officer or Chief Operating Officer, each of whom has the authority to approve such relationships.

Ongoing Monitoring: Business Operations, FRM, Treasury, and TPRM monitor the financial, operational, legal, and regulatory risks related to Financial Institution relationships. This monitoring includes Watch Level reporting, material agreement reviews, and ongoing monitoring of financial and operational risks. Should Watch Level reporting detect potential issues or trends that might indicate the deterioration of a Financial Institution's ability to perform, protective measures that may be applied include, but are not limited to, modifying the business relationship or termination of the relationship.

Business Operations, FRM, Treasury, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of a Financial Institution's financial, operational, legal, and regulatory risks and may raise matters for consideration to the CLRWG. The CLRWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the Credit and Liquidity Risk Working Group Procedure.

Off-Boarding: A Financial Institution relationship may be terminated by the Financial Institution or OCC, pursuant to applicable agreements. The Chief Executive Officer or Chief Operating Officer, each of whom has the authority, must approve the termination of a Financial Institution relationship initiated by OCC. OCC may terminate a relationship if risks rise to an unacceptable level or a relationship is no longer required. Business Operations, FRM, Treasury, and Legal perform activities necessary to off-board the relationship in accordance with the agreement between OCC and the applicable Financial Institution.

C. Financial Market Utilities

FMUs provide OCC with a range of services, including custody, stock loan processing, cross-margin programs, and securities settlement.

On-Boarding: Business Operations, FRM, Legal, and TPRM consider an FMU's financial condition, operational capabilities, and any legal or regulatory risks associated with the relationship during the onboarding process. The CLRWG reviews this evaluation and recommends approval prior to presentation to the Chief Executive Officer or Chief Operating Officer, each of whom has the authority to approve such relationships. On-boarding of the relationship may be subject to completion of any necessary agreements or regulatory filings.

Ongoing Monitoring: Business Operations, FRM and TPRM monitor the financial, operational, legal, and regulatory risks related to FMU relationships. This monitoring includes Watch Level reporting, material agreement reviews, and ongoing monitoring of financial and operational risks.

Business Operations, FRM, and TPRM provide reporting to the CLRWG, comprised of results from ongoing monitoring and management of an FMU's financial, operational, legal, and regulatory risks and may raise matters for consideration to the CLRWG. The CLRWG may take action or escalate the matter to the MC in accordance with the functions and responsibilities assigned to the CLRWG by the MC in the Credit and Liquidity Risk Working Group Procedure.

Off-Boarding: An FMU relationship may be terminated by the FMU or OCC, pursuant to applicable agreements. The Chief Executive Officer or Chief Operating Officer, each of whom has the authority, must approve the termination of an FMU relationship initiated by OCC. Business Operations, FRM, Legal, and TPRM coordinate the activities necessary to off-board the relationship, including, but not limited to, the wind down of all services with the FMU and, if necessary, revising OCC policies and procedures and filing rule changes with OCC's regulators after receiving the appropriate internal approvals.

D. Exchange Relationships

OCC provides clearing services for Exchange Relationships pursuant to applicable agreements[2]. Under these agreements, OCC clears products including equity and index options, commodity contracts, treasury futures, security futures, and stock loan transactions.

On-Boarding: Participant Services and Solutions, in coordination with stakeholders which may include, but are not limited to, FRM, Business Operations, and TPRM, completes an evaluation of proposed Exchange Relationships, including assessing whether an Exchange Relationship meets OCC's qualification requirements[3]. The due diligence performed for a proposed Exchange Relationship is presented to the EVWG for review and subsequently to the MC for approval. A summary of due diligence and on-boarding activities are presented to the MC. A summary of legal documents and requirements are presented to the Board of Directors for approval to launch.

Ongoing Monitoring: Business Operations and TPRM monitor the operational and regulatory risks related to Exchange Relationships, and escalate identified legal risks to OCC's Legal Department. Such relationships are monitored for connectivity and trade activity on an ongoing basis. Exchange Relationships monitoring allows for internal escalation to Production Support and the EVWG, and externally to Exchange Relationships.

Business Operations and TPRM conduct reviews to assess an Exchange Relationship's operational performance, overall financial condition, and ability to meet contractual obligations. To assess operational performance, Business Operations executes testing activities throughout the year aimed at mitigating operational risk, including the requirement that all Exchange Relationships must participate in annual disaster recovery tests. In addition, Business Operations supports external testing with all Exchange Relationships upon request or related to OCC system changes and enhancements. TPRM monitors the financial condition of Exchange Relationships and evaluates whether an Exchange Relationship's operations meet its contractual obligations. Business Operations facilitates annual meetings with each Exchange Relationship that include an operational performance review, communication of updates about upcoming OCC system enhancements and changes, and solicitation of feedback.

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[2] Exchange Relationship agreements are filed with OCC's regulators, as required.

[3] See OCC By-Laws, Article VIIA – Equity Exchanges and Article VIIB – Non-Equity Exchanges for further detail.

Business Operations and TPRM provide reporting to the EVWG, comprised of results from ongoing monitoring and management of an Exchange Relationship's financial, operational, legal and regulatory risks and may raise matters for consideration to the EVWG. The EVWG may take action or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the EVWG by the MC in the Exchange and Vendor Working Group Procedure.

Off-Boarding: An Exchange Relationship may be terminated by the Exchange or OCC, pursuant to the applicable Exchange Relationship agreement. Upon request for termination by the Exchange Relationship, Business Operations notifies the EVWG and the MC to discuss any immediate actions to mitigate exposure to operational, legal, or regulatory risks and to determine a termination date.

Additionally, Business Operations leads the development of a deployment plan to identify the departments and required actions necessary to reduce any interim risk prior to termination, which may include performing clearing system maintenance and limiting or removing connectivity to the Exchange Relationship. Business Operations and other supporting departments coordinate and perform activities necessary to off-board the relationship in accordance with the applicable Exchange Relationship agreements.

E. <u>Vendors</u>

OCC engages and maintains vendor relationships for various purposes, including to accomplish its strategic objectives, outsource operational activities, and assist in compliance with legal and regulatory obligations. All Third-Party relationships that are not Clearing Members, Financial Institutions, FMUs, or Exchange Relationships are treated as vendor relationships. Prior to commencing on-boarding of a new technology Vendor, implementing new capabilities, or services to existing technology, Information Technology reviews the request to identify solutions and analyze requirements to verify that they are in line with enterprise strategic requirements.

On-Boarding: During on-boarding, TPRM works with the business area requesting the vendor to assign a vendor relationship manager ("VRM") who manages the vendor relationship and execute the phases of the vendor relationship lifecycle. TPRM coordinates with the VRM to complete an evaluation of inherent risks posed by the vendor relationship. The evaluation of inherent risk results in a vendor risk tier which is used to inform the level of due diligence and frequency of monitoring for each vendor. Due diligence is based on the inherent risks identified and may include a review of financial health, operational capacity, and other standards based on the relationship.

Any potential risk issues identified are presented to the VRM and OCC's Legal Department for review. Potential risk issues may also be shared with the EVWG. An agreement that addresses control and business requirements is then negotiated with the vendor and executed by authorized signatories designated through the process outlined in the Legal Services Policy.

Ongoing Monitoring: VRMs monitor vendors to assess whether they are delivering services as required by applicable agreements. The scope and frequency of monitoring is determined by the vendor risk tier and inherent risks identified during on-boarding. Monitoring may include reviewing a vendor's financial health, operational capacity, and other standards based on the relationship's inherent risks.

TPRM provides reporting to the EVWG, comprised of results from ongoing monitoring and management of a vendor's financial, operational, legal, and regulatory risks and may raise matters for consideration to the EVWG. The EVWG may take action (e.g., additional monitoring, require contingency plans, and additional contractual requirements) or escalate the matter to the MC, in accordance with the functions and responsibilities assigned to the EVWG by the MC in the Exchange and Vendor Working Group Procedure.

Off-Boarding: A vendor relationship may be terminated by the vendor or OCC, pursuant to applicable agreements. OCC mitigates exposure to operational, legal, and regulatory risk and performs activities necessary to off-board the relationship in accordance with the applicable vendor agreement.

V. DEFINITIONS

Capitalized terms used and not defined below have the meaning set forth in OCC's Rules and By-Laws.

Exchange Relationships: Includes options exchanges, futures markets, OTC trade sources, or loan markets.

Service Provider for Core Services: Any person that, through a written services provider agreement for services provided to or on behalf of OCC, on an ongoing basis, directly supports the delivery of clearance or settlement functionality or any other purposes material to the business of OCC.

Third-Party: A Clearing Member, ~~Clearing Bank, custodian, liquidity provider under OCC's committed facilities, investment counterparty, financial market utility,~~ Financial Institution, FMU, Exchange, or vendor, which also has:

(i) a relationship with OCC where products and/or services are exchanged; (ii) other ongoing business relationships with OCC; or (iii) responsibility for OCC associated records.

Watch Level: OCC assigns a level of required monitoring and reporting (i.e., a "Watch Level") based on the identification of events or trends that might signal the deterioration of an entity's financial, operational, or risk management ability to timely meet its future obligations to OCC. Watch Level is a tiered structure with financial (e.g., capital and profitability), operational (e.g., operational difficulties and late financial report submissions), and general business (e.g., risk management issues and business restrictions by another SRO) criteria at each tier. Reaching the criteria at higher tier levels signals a more material event or trend has been detected and an entity may require heightened risk management. The CLRWG may recommend changes to Watch Level criteria to the MC, which maintains approval authority for recommended changes. FRM is responsible for implementing all approved Watch Level criteria changes.