



DCO Rules

**UNITED STATES
COMMODITY FUTURES TRADING COMMISSION**

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Request For Confidential Treatment - Detailed Written Justification	
2026-07-08 CFTC Confidential Treatment Request SR-OCC-2026-006 (Synthetic Futures Model).pdf	



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July 8, 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 Synthetic Futures.

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 changes that would expand the use of an existing OCC margin model used to margin certain futures products that OCC clears in its capacity as a derivatives clearing organization (“DCO”) registered with the CFTC. The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal has also been submitted to the Securities and Exchange Commission (“SEC”) under Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 19b-4 thereunder. The change will not be implemented until OCC has obtained all necessary regulatory approvals.

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

Explanation and Analysis

The purpose of this rule certification is to expand the use of an existing OCC margin model used to margin certain futures products that OCC clears in its capacity as a derivatives clearing organization (“DCO”) registered with the Commodity Futures Trading Commission (“CFTC”).

OCC provided proposed changes to its STANS Methodology Description as confidential Exhibit A to File No. SR-OCC-2026-006. Material proposed to be added to the STANS Methodology Description as currently in effect is underlined and material proposed to be deleted is marked with strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.

Overview

In its capacity as a DCO registered with the CFTC, OCC clears certain futures products on behalf of CFTC-registered designated contract markets (“DCMs”). In its role as a DCO, OCC guarantees the performance of its Clearing Members by becoming the buyer to every seller and the seller to every buyer, thereby guaranteeing performance of the futures contracts regardless of the potential default of one of its Clearing Members. OCC manages its financial risk exposure to its Clearing Members through financial safeguards, including the collection of margin collateral from Clearing Members designed to, among other things, address the market risk associated with a Clearing Member’s positions during the period of time OCC has determined it would take to liquidate those positions.

To calculate Clearing Member margin requirements, OCC has developed models within its proprietary margin methodology, the System for Theoretical Analysis and Numerical Simulations (“STANS”). With respect to futures products, one of those models is OCC’s Synthetic Futures Model, which OCC uses to model settlement prices for certain futures products. Originally developed to margin futures on Cboe’s Volatility Index (“VIX”),¹ OCC has since extended the Synthetic Futures Model to other futures products cleared by OCC. The Synthetic Futures Model generates prices and correlations using risk factors that are based on observed futures prices (i.e., the “synthetic” futures contract²), as opposed to using the underlying itself. Accordingly, this model is more appropriate for pricing futures products where the underlying contract is not traded and, as such, cannot be valued using the cost-of-carry relationship applied to traded contracts.³ This approach enables the model to account for variations in futures volatility across the term structure. The Synthetic Futures component within STANS is used for futures products where it is crucial to explicitly capture the dynamics of various tenors of a product, such as futures on volatility indices, futures on interest rates, and futures on crude oil.

The Cboe Futures Exchange (“CFE”) now intends to list two new futures products on indices whose value measures the total return of the 50 best performing stocks and the 50 lowest performing stocks, respectively, included in the Cboe U.S. Large-Mid Cap 100 Equal Weighted Index (“Lead & Lag Futures”). This proposed rule change would allow OCC to use its Synthetic Futures Model to support CFE’s Lead & Lag Futures and other futures that a DCM may list in

¹ See Exchange Act Release No. 85873 (May 16, 2019), 84 FR 23620 (May 22, 2019) (SR-OCC-2019-002). OCC now models VIX price returns using the Volatility Index Futures Model, implemented in 2022. See Exchange Act Release No. 95319 (July 19, 2022), 87 FR 44167 (July 25, 2022) (SR-OCC-2022-001).

² A “synthetic” futures time series, for the intended purposes of OCC, relates to a uniform substitute for a time series of daily settlement prices for actual futures contracts, which persists over many expiration cycles and thus can be used as a basis for econometric analysis.

³ Exchange Act Release No. 85873, supra note 1, at 23621.

the future with similar dynamics for which OCC's Quantitative Risk Management business unit ("QRM") determines the Synthetic Futures Model is appropriate.

Proposed Changes

Background

On May 16, 2019, the Commission approved a proposed rule change by OCC to enhance its margin model to simulate price returns for VIX futures⁴ and allow for more appropriate modeling of the risk attributes of such products. The proposed methodology enhancements included (1) introducing synthetic futures into the process for daily re-estimation of prices and correlations for VIX and (2) an enhanced statistical distribution for modeling price returns for synthetic futures. Prior to that change, OCC modeled the futures settlement prices for VIX futures in STANS based on the index underlying the futures contract. This approach was subject to several limitations, including that, among other things, (i) the underlying (i.e., the index), is not a traded contract and, therefore, cannot be replicated by static portfolios of traded contracts; and (ii) the term structure of the futures market cannot be modeled using the underlying index.⁵ Due to the limitations of modeling the term structure, the model used for VIX prior to the change could under-margin positions in certain trading strategies that involve spreads between delivery dates.⁶

To address these limitations, the Synthetic Futures Model generates prices and | correlations using risk factors that are based on observed futures prices (i.e., the synthetic futures contract⁷), as opposed to using the underlying index itself. This allows the model to capture differences in volatility of futures across the term structure. Such differences in volatility are exhibited for futures products whose underlying deliverable is linked to a different tenor of a market observable risk factor. These risk factors are then used in the generation of Monte Carlo scenarios for the futures by using volatility and correlations obtained from the existing simulation models in STANS.

⁴ Id.

⁵ Id. at n. 7 ("Similar to a stock index (e.g., SPX), a Volatility Index does not have an expiration. By contrast, there may be a variety of futures contracts with varying expiry dates on any one Volatility Index. For example, the VIX does not have an expiration date, but market participants may trade VIX futures that expire on different dates.").

⁶ See Exchange Act Release No. 85873, at 23621, supra note 4. ("[B]ecause of the term structure of the futures market, futures on a volatility index are less volatile and may have a lower probability of extreme price movements than the underlying index itself. Additionally, due to the limitations of modeling the term structure, the current model may under-margin positions in certain strategies that Clearing Members may deploy that involve spreads between delivery dates.").

⁷ See supra note 5.

OCC has since expanded use of the Synthetic Futures Model to other futures products. On July 10, 2020, OCC filed a proposed rule change to expand the use of the Synthetic Futures Model to CFE's AMERIBOR Futures.⁸ On September 30, 2020, OCC filed another proposed rule change to further expand the use of the Synthetic Futures Model to Treasury yield index futures.⁹ On April 29, 2021, OCC filed another proposed rule change to extend the use of the Synthetic Futures Model to futures linked to crude oil.¹⁰

The Synthetic Futures Model would allow OCC to facilitate innovative futures products where the underlying assets are not actively traded contracts. In situations where the term structure of the futures market cannot be determined by referencing the underlying asset, this model employs risk factors derived from synthetic futures contracts to generate prices.

Proposed Changes

OCC now proposes to expand the use of the Synthetic Futures Model to additional futures products that may be listed by DCMs, provided the model is suitable for accurately representing the dynamics across the various tenors of these products. Specifically, OCC proposes revising its STANS Margins Methodology to clarify the intended scope and use of its Synthetic Futures Model to measure the risk of these futures within STANS. Under the proposed rule change, OCC also proposes removing any historical lists of in-scope products from its STANS Methodology Description of the Synthetic Futures Model. This is appropriate since some of the listed futures products no longer trade (i.e., crude oil futures), while others now use a different model (i.e., VIX futures). As outlined in the STANS Methodology Description, OCC would implement the model specifically for futures products where it is crucial to explicitly capture the dynamics of various tenors of the product. OCC believes that the Synthetic Futures Model would provide more appropriate margin coverage¹¹ for these futures products than other models in OCC's inventory.¹²

⁸ See Exchange Act Release No. 89392 (July 24, 2020), 85 FR 45938, at n. 13 (July 30, 2020) (SR-OCC-2020-007). ("AMERIBOR Futures are futures on the American Interbank Offered Rate disseminated by the American Financial Exchange, LLC, which is a transactions-based interest rate benchmark that represents market-based borrowing costs.").

⁹ See Exchange Act Release No. 90139 (Oct. 8, 2020), 85 FR 65886 (Oct. 16, 2020) (SR-OCC-2020-012).

¹⁰ See Exchange Act Release No. 91833 (May 10, 2021), 86 FR 26586 (May 14, 2021) (SR-OCC-2021-005).

¹¹ OCC performed diagnostic testing to evaluate the expected shortfall and coverage levels produced by the Synthetic Futures Model using returns derived from the underlying lead and lag indices of the futures contracts. The L/S expected shortfall coverage rates are both 99.45% for the lead index, and 98.89% and 100% for the lag index.

¹² For example, OCC also maintains a "Generic Futures Model," which is a simple model based on the cost of carry. Certain futures products cannot be priced using the cost-of-carry relationship because the underlying (i.e., the index) does not trade.

Under the existing STANS Methodology Description, the Synthetic Futures Model would be used to construct a synthetic series of futures based on the daily historical returns of the contracts with approximately the same tenor as traded futures. The traded futures contracts would be mapped to the simulated return scenarios of the corresponding synthetics to produce theoretical prices. When market data is unavailable to construct the synthetic time-series of futures, such as the launch of new products or where the underlying is untraded or not investible (i.e., the product cannot be replicated by static portfolios of traded contracts such as an index), proxy data from similar products or statistical methods would be used instead to calibrate the model parameters.¹³ OCC would reassess the underlying assumptions and statistical method used to generate the proxy data for these futures products once three months of market data are accumulated, and quarterly thereafter. Market data will completely replace the proxy data once OCC has sufficient time series to meet the minimum data requirements for calibration and estimation under the STANS Methodology.

Going forward, OCC's Financial Risk Management ("FRM") Department would determine to employ the Synthetic Futures Model for futures products consistent with OCC's existing Model Risk Management ("MRM") Policy,¹⁴ which provides that FRM reviews new products in accordance with its Risk Methodology Development & Implementation Procedure to determine whether or not a new Risk Model¹⁵ is required or if the use of an existing Risk Model is fit for purposes. OCC believes FRM is the appropriate decisionmaker for making such model selection determinations because the Quantitative Risk Management ("QRM") business unit within FRM is responsible for, among other things, developing Risk Models such as the Synthetic Futures Model and monitoring the use and performance of such Risk Models according to relevant procedures. The MRM Policy further provides that FRM recommends approval to the Model

¹³ For example, when OCC began to clear Small Crude Oil futures, it used proxy data constructed from similar tenor ICE WTI futures. See Exchange Act Release No. 91833, supra note 10, 86 FR at 26587 n.13. For the Lead-Lag Futures, the returns would be simulated using a statistical approach based on the assumptions that: (i) for front-month futures contracts, as times approaches the maturity, the futures price moves in tandem with and eventually converges to the price of the corresponding underlying index; and (ii) any non-front month futures may be priced by expectation of future underlying index move and a risk premium.

¹⁴ See, e.g., Exchange Act Release No. 82473 (Jan. 9, 2018), 83 FR 2271, 2272 (Jan. 16, 2018) (discussing the MRM Policy's section on Risk Model implementations with respect to new products). OCC has subsequently amended the MRM Policy, including, in relevant part, to update the names of relevant procedures. See, e.g., Exchange Act Release No. 97484 (May 11, 2023), 88 FR 31549, 31551-52 (May 17, 2023) (SR-OCC-2023-004) (discussing changes associated with the Risk Methodology Development and Implementation Procedure).

¹⁵ To manage credit and liquidity risk arising from its relationship with its members, OCC uses quantitative methods to make estimates, forecasts, and projections in the context of its credit risk models, margin system and related models, and liquidity risk models (each a "Risk Model"). See Exchange Act Release No. 97763 (June 20, 2023), 88 FR 41453, 41453 (June 26, 2023) (SR-OCC-2023-004)

Risk Working Group (“MRWG”)¹⁶ subsequent to effective challenge and approval by OCC’s second-line Model Risk Management business unit.¹⁷

Specifically, QRM reviews all new products proposed to be listed by participant exchanges, including new futures contracts proposed to be listed by DCMs for which OCC provides clearance and settlement services. As part of this review process, QRM determines whether a current model in OCC’s model inventory is appropriate for the product. For example, certain models in OCC’s model inventory are specific to particular types of underlying interests, such as OCC’s S&P 500 Implied Volatility Simulation Model.¹⁸ QRM makes such model selections for new products based on the consistency of the product specifications with the application of the STANS Methodology Description and QRM’s determination of the appropriateness of the model’s margin treatment for the product. To the extent that any changes to the STANS Methodology Description would be required, or if clearance of the product using existing models would materially affect the nature or level of risk presented by OCC, OCC would file such changes with the Commission following approval of such changes by OCC’s Risk Committee in accordance with the existing MRM Policy.¹⁹

Consistency with DCO Core Principles

OCC reviewed the DCO core principles (“Core Principles”) as set forth in the Act, the regulations thereunder, and the provisions applicable to a DCO that elects to be subject to the provisions of 17 CFR Subpart C (“Subpart C DCO”). During this review, OCC identified the following as potentially being impacted:

Core Principle D – Risk Management. Core Principle D requires DCOs to “ensure that the [DCO] possesses the ability to manage the risks associated with discharging the responsibilities of the [DCO] through the use of appropriate tools and procedures.” The Core

¹⁶ The MRWG is a cross-function working group that assists OCC’s Management Committee in overseeing and governing OCC’s model-related risk issues.

¹⁷ See Exchange Act Release No. 82473, supra note 14, 83 FR at 2272 (discussing MRWG approval after review by OCC’s Model Validation Group (“MVG”). OCC’s Model Risk Management unit was formerly known as MVG. See Exchange Act Release No.95842 (Sept. 20, 2022), 87 FR 58409, 58419 (Sept. 26, 2022) (SR-OCC-2022-010) (proposing conforming changes to OCC’s risk management policies regarding the name of OCC’s Model Risk Management business unit).

¹⁸ See Exchange Act Release No. 95319, supra note 1, 87 FR at 44168 (July 25, 2022) (SR-OCC-2022-001) (discussing STANS Methodology Description changes to implement a new model for incorporating variations in implied volatility within STANS for products based on the S&P 500 Index).

¹⁹ For example, following such a QRM review, OCC filed a proposed rule change to modify the STANS Methodology Description’s discussion of the Variance Futures Model based on changes to the product specifications for a re-listing of CFE’s variance futures product. See Exchange Act Release No. 100528 (July 15, 2024), 89 FR 58836 (July 19, 2024) (SR-OCC-2024-008).

Principle further requires that “[t]he margin required from each member and participant of a [DCO] shall be sufficient to cover potential exposures in normal market conditions.” Finally, Commission Regulation 39.13(g) requires in part that DCOs “have initial margin requirements that are commensurate with the risks of each product and portfolio, including any unusual characteristics of, or risks associated with, particular products or portfolios.”

OCC believes the proposed rule change is consistent with Core Principle D and Commission Regulation 39.13(g). As described above, the proposed rule change would expand the use of OCC's existing Synthetic Futures Model to model price returns for certain futures products for which the model has been deemed appropriate by OCC's QRM team. Because the model generates prices and correlations from risk factors based on observed futures prices and captures volatility differences across the term structure for products whose underlying is not a traded contract, OCC would produce initial margin requirements commensurate with the risks and particular attributes of each such product and portfolio. OCC accordingly believes the model provides the appropriate tools and procedures to manage the risks of clearing these products and would generate margin sufficient to cover OCC's potential exposures in normal market conditions, consistent with OCC's analysis of Rule 17ad-22(e)(6) in the Statutory Basis section above.

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.²⁰

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

²⁰ See Options Clearing Corporation (OCC) Rulemaking, <https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking/occ>

Christopher J. Kirkpatrick
July 8, 2026
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OCC hereby certifies that the rule set forth at Exhibit A of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

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

Sincerely,

/s/

[REDACTED]

[REDACTED]

Enclosure: Exhibit A