

# OCC Enhances Clearing Membership Standards on 30th Anniversary of Securities Lending Program



*Global Investor* interviews **Oberon (Obie) Knapp**, Head of Securities Lending at OCC on their 30th Anniversary.

**OCC is celebrating two significant milestones this year – its 50th anniversary as well as the 30th anniversary of its securities lending program. How has the program evolved since 1993?**

Since OCC first opened its doors in April 1973, the organisation has grown tremendously – from supporting an expanding set of products to gaining a new status as a Systemically Important Financial Market Utility (SIFMU). As part of OCC’s mission to serve as the foundation for secure markets, we look to continually evolve to support industry growth. A prime example is the securities lending program, created based on market participant demand. The initial Hedge Program launched in 1993 with 10 clearing members and enabled participants to create stock loan/borrow positions

that reduced margin requirements by recognising the limited risks of their intermarket hedged positions. Transactions numbered fewer than a few hundred a day.

Today the program includes 85 of OCC’s clearing members, and not all of these members clear options or futures - over a dozen are exclusive to the securities lending program. OCC is now the world’s largest U.S. equities lending counterparty. In June 2023, average daily loan balance reached an 18-month high of \$139bn (£107.7bn), with an average transaction volume of 9,800 per day.

**What recent changes has OCC made to its membership standards?**

Recently, the U.S. Securities and Exchange Commission (SEC)

approved OCC’s rule change to enhance its clearing membership standards which includes, among other changes, expanding the types of institutions that are eligible for membership to include certain U.S. national banks registered with the Office of the Comptroller of the Currency, state-chartered banks that are members of the Federal Reserve System, and certain non-U.S. banks.

These changes are a significant step forward in OCC’s efforts to continue to meet market participants’ evolving needs. Traditionally, OCC has served U.S. broker-dealers and futures commission merchants as well as some non-U.S. securities firms, and we are excited that OCC can now extend clearing and settlement services to banks.

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### What types of programs can banks now participate in, and what are the key benefits?

Banks can apply for clearing membership at OCC and use existing services, including our securities lending programs. Currently, OCC runs two distinct programs: the original Hedge Program and the Market Loan Program. Hedge supports transactions executed bilaterally between counterparties, while Market Loan features an exchange-based model that supports transactions originating through participating loan markets. In both programs, OCC acts as principal counterparty and guarantees the value of both the lent shares to the lender and the collateral to the borrower.

Potential benefits include risk-weighted asset savings of approximately 95% compared to uncleared stock loans, reduced operational risk, expanded credit lines, and guaranteed mark-to-market settlements. Additionally, members benefit from OCC's resilient, reliable clearing system as well as excellent customer service.

### Are there any other enhancements OCC is considering for its securities lending programs?

OCC prioritises communicating with clearing members and market participants to discuss how we can best serve the industry, and we plan to continue to consider enhancements to our securities lending program in the future to suit market participants' needs.

For example, reconciliation processes in the industry can be very complex and inefficient. OCC's ongoing technology transformation will help address this challenge; we're

modernising our infrastructure to use select features of blockchain-powered distributed ledger technology (DLT), pending regulatory approval, for our forthcoming securities lending system to provide enhanced communication and help improve operational efficiency while reducing risk.

By distributing data from a single shared ledger, participants will be able to ensure they're working off the same version of the contract as OCC. This will reduce operational risk by providing near real-time views of members' cleared activity. In the future, members may adopt a node at their discretion potentially enabling members to further improve operating efficiency, as well as lowering the barriers to entry for new market participants.

### How might this impact the securities lending market?

Our programs reduce systemic risk to the industry while also promoting capital efficiency for participants. Until now, these benefits focused on the domestic lending markets' broker-to-broker segment, and we're excited about our membership standards changes to offer the resiliency of central clearing to larger parts of the ecosystem. We also envision our technology transformation and forthcoming clearing platform will enable greater transparency, efficiency, and interoperability industry wide.

We continually work to earn the confidence and trust of our clearing members and the greater investing public. We're proud to have served the securities lending industry for the last 30 years and are excited to progress with our transformation to continue to serve market participants as their needs evolve. ■

### Oberon Knapp

Executive Director, Participant Solutions, Head of Securities Lending, OCC



Oberon (Obie) Knapp is Executive Director, Participant Solutions and Head of Securities Lending at OCC, the world's largest equity derivatives clearing organisation. In this role, he is responsible for leading OCC's securities lending strategy and roadmap.

Prior to joining OCC, Mr. Knapp held multiple senior roles at Brown Brothers Harriman. Most recently he led the global product strategy and development for BBH's Investment Operations and Infomediary businesses, providing a modular and interoperable operating environment for asset owners and asset managers.

Mr. Knapp has a degree in finance from The College of New Jersey and is a CFA charter holder.