
# Celebrating 25 years

As OCC celebrates the 25th anniversary of its cleared stock loan programme, Matthew Wolfe discusses capital efficiencies in stock loan through central clearing

As OCC celebrates the 25th anniversary of its cleared stock loan programme this year, we have been marking that milestone with growth and development. OCC's stock loan programme continues on a growth trend with a 19 percent increase in new loans in July. Year-to-date stock loan activity through 31 July increased 22 percent from the same period a year ago with 1,611,382 new loan transactions in 2018, and the company's on loan balances have increased 8 percent this year to over $82 billion as of 31 July.

OCC's cleared stock loan programme was launched as a way to recognise the risk offsets between equity and index options, and stock loan positions, thus requiring less collateral from clearing members. Since then, additional incentives have been discovered. Substitution of counterparty credit to a central counterparty like OCC with reduced capital requirements that banks receive from OCC's two percent risk weighting is a big one.

OCC's innovative and unique System for Thematical Analysis and Numerical Simulations (STANS) risk methodology provides members a custom evaluation of their portfolio's risk, which is typically driven by equities. OCC's STANS risk system assesses the combined risk of options positions, stock loans, and equity collateral on deposit. This provides a more accurate view of offsets and delivers savings to clearing members compared to traditional CCP risk models, particularly if the stock loan and/or collateral positions reduce the risk of the option positions. Clearing members and their clients can realise significant collateral and capital savings from OCC's unique risk-modelling by incorporating risk offsets in to their stock loan and collateral decisions. Many clearing members are making investments in their systems and processes to reduce their OCC collateral requirements and improve their operational efficiency.

Capital efficiencies are also realised with cash versus non-cash collateral. With non-cash loans, members are able to post securities instead of cash, making them more capital efficient and freeing up high quality liquid assets. OCC is working closely with custodians as we develop a clearing solution for non-cash collateralised loans. OCC recently surveyed clearing members about their use of non-cash; over 70 percent of respondents indicated they expect non-cash activity will grow over the next one to two years and that if cleared, non-cash balances would be at least $20 billion.

Non-cash offers another benefit for lenders. OCC is working with custodians to ensure that the accounts holding the collateral can support a perfected security interest for both the lender and OCC, and that the oversight, controls and automation provided by the custodians allow borrowers to easily use the accounts. These protections and security interests should mean that the risks of a lender not meeting an obligation to OCC are mitigated and intended to address many of the concerns around buy-side clearing models.

The combination of these benefits should allow participants to enjoy lower costs, better pricing, and higher utilisation offered through centralised clearing of stock loan.

OCC is very appreciative of the support and engagement from our clearing members and the securities lending industry, and we look forward to continued collaboration as we work to refine the collateral model to allow for expanded participation in our clearing solution. Through education and increased adoption, we are working to encourage members and new users to take advantage of the capital and collateral efficiencies and the sound risk management that OCC offers to market participants. **SLT**

> ***We look forward to continued collaboration as we work to refine the collateral model to allow for expanded participation in our clearing solution***

**Matthew Wolfe**
Vice president of business development
OCC