



DCO Rules

UNITED STATES COMMODITY FUTURES TRADING COMMISSION

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Organization Type DCO	Organization Acronym OCC
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Cover Sheet	
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Documents	
2022.2.1 CFTC Certification (Cash Inv Mgmt Policy).pdf 2022.2.1 Exhibit A [CONFIDENTIAL].pdf (Confidential Treatment Requested) 2022.2.1 Exhibit B.pdf	
Request For Confidential Treatment - Detailed Written Justification	
CFTC Confidentiality Request 2.1.2022.pdf	



February 1, 2022

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 Concerning OCC's Cash and Investment Management Policy

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 (i) its policy for safeguarding cash and related investments, and (ii) amendments to OCC’s Rules governing use of the Clearing Fund in the event of the failure of a non-bank investment counterparty with whom OCC has invested Clearing Member funds. The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal will not be implemented until OCC receives all necessary regulatory approvals in connection with a proposed rule change filed with the Securities and Exchange Commission (“SEC”) (File No. SR-OCC-2021-014)¹ under Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 19b-4 thereunder and an advance notice filed with the SEC and the Board of Governors for the Federal Reserve System (File No. SR-OCC-2021-803)² pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled Payment, Clearing and Settlement Supervision Act of 2010 (“Clearing Supervision Act”) and Rule 19b-4(n)(1)(i) under the Exchange Act.

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

Explanation and Analysis

This rule certification would (1) formalize OCC’s policy for safeguarding cash and related investments and (2) amend OCC’s Rules governing use of the Clearing Fund in the event of the failure of a bank to meet a settlement obligation with OCC to ensure such access extends to the failure of an investment counterparty with whom OCC has invested cash deposited by Clearing Members in respect of margin or Clearing Fund requirements under the conditions identified in OCC

¹ See Exchange Act Release No. 93916 (Jan. 6, 2022), 87 FR 1819 (Jan. 12, 2022) (File No. SR-OCC-2021-014).

² See Exchange Act Release No. 93915 (Jan. 6, 2022), 87 FR 1814 (Jan. 12, 2022) (File No. SR-OCC-2021-803).

Rule 1006(c) and (f), regardless of whether the investment counterparty is a bank. The Cash and Investment Management Policy is included in confidential Exhibit A to this rule certification. Proposed amendments to OCC's Rules are included in Exhibit B to this rule certification. 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.³

Background

OCC's By-Laws and Rules govern the management and investment of OCC's own funds and cash deposited by Clearing Members. With respect to OCC's own funds (other than Clearing Fund deposits), Article IX, Section 1 of OCC's By-Laws provides that funds in excess of the amount needed as working capital may be invested by the Board in Government securities or such other securities or financial instruments as the Board or a Board-level committee may from time to time approve.⁴ With respect to cash deposited by Clearing Members, OCC Rules 604(a) and 1002(c) provide that cash deposited in respect of a Clearing Member's margin requirements or Clearing Fund contributions may from time to time be partially or wholly invested by OCC for its account in Government securities.⁵ OCC does not propose to amend these By-Laws or Rules by this proposed rule change.

OCC's investments historically have been limited to overnight transactions under deliver-versus-payment ("DVP") reverse repurchase agreements. As collateral, the investment counterparty deliveries Government securities equal to 102% of the cash invested at the time the investment is made. Such investments reduce OCC's investment risks by permitting quick liquidation with little adverse price effect and controlling the movement of OCC's assets via a custodian bank. To minimize counterparty risk, OCC restricts its potential counterparties to financial institutions that meet certain standards of size, capital adequacy, product offering and operational capacity.

In the event of a failure or disruption of an investment counterparty that is a bank, OCC's Rules provide OCC with authority to access the Clearing Fund to address liquidity shortfalls, including shortfalls arising from the investment of Clearing Member cash in Government securities. Specifically, OCC Rule 1006(f) authorizes OCC to take possession of cash or securities deposited by Clearing Members in respect of the Clearing Fund when OCC reasonably believes it necessary to meet its liquidity needs for same-day settlement as a result of the failure of any bank to achieve daily settlement with OCC.⁶ In the extremely unlikely event that a bank investment counterparty failed to return the cash versus return of the Government securities to unwind a transaction under a reverse

³ OCC's By-Laws and Rules can be found on OCC's website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

⁴ See By-Law Art. IX, Sec. 1.

⁵ See OCC Rule 604(a); Rule 1006(c).

⁶ See OCC Rule 1006(f). As discussed, infra, this proposed rule change would amend this clause to apply when OCC reasonably believes it necessary to meet its liquidity needs for "daily settlement" as a result of the failure of any bank "to perform any obligation to the Corporation when due."

repurchase agreement—e.g., because of a systems disruption, operational outage, or otherwise—OCC could exercise authority under Rule 1006(f) to borrow from the Clearing Fund to the extent required for OCC to meet its settlement obligations with Clearing Members.⁷

In the unlikely event that any part of the borrowing under Rule 1006(f) is outstanding after 30 calendar days, or if OCC determines that some or all of the amount borrowed constituted an actual loss, OCC would charge the loss to the Clearing Fund.⁸ In the unlikely event that OCC incurred an investment loss resulting from a bank’s failure to return the invested cash because of bankruptcy, insolvency, receivership, suspension of operations or other similar event, OCC may, at its discretion, charge the loss to the Clearing Fund.⁹ OCC may also, at its discretion, apply skin-in-the-game to a loss resulting from a borrowing or bank failure in the form of liquid net assets funded by equity¹⁰ in excess of 110% of OCC’s Target Capital Requirement.¹¹

Cash and Investment Management Policy

OCC proposes to file its Cash and Investment Management Policy (or “Policy”) as a rule of the derivatives clearing organization (“DCO”) within the meaning of Section 5c(c) of the Act¹² and CFTC Rule 40.1.¹³ The Policy would include statements of purpose, applicability and scope, safeguarding standards for maintaining cash and related investments to minimize credit and liquidity risk, and guidelines for investing OCC Cash and Clearing Member Cash, as defined below.

Purpose, Applicability and Scope

The Policy would include statements of the Policy’s purpose, applicability, and scope. The purpose of the Policy would be to (1) outline the safeguarding standards for cash and related investments managed by OCC to minimize credit and liquidity risk, and (2) provide guidelines for investments permitted by OCC’s By-Laws and Rules. The Policy principally would apply to OCC’s Treasury department (“Treasury”), which has responsibility for managing cash on behalf of OCC.

⁷ OCC amended its Rules in 2018 to extend access to the Clearing Fund in the extraordinary event that OCC faces a liquidity need in order to complete same-day settlement for reasons other than a bank or clearing organization’s bankruptcy, insolvency, receivership, suspension of operations, or any similar event. See Exchange Act Release No. 82309 (Dec. 13, 2017), 82 FR 60262 (Dec. 19, 2017) (File No. SR-OCC-2017-017).

⁸ See OCC Rule 1006(c)(ii).

⁹ See OCC Rule 1006(c)(i).

¹⁰ OCC’s Capital Management Policy defines “liquid net assets funded by equity” to be the level of cash or cash equivalents, no greater than OCC’s shareholders’ equity, less any approved adjustments (e.g., agency-related liabilities such as Section 31 fees held by OCC and the Minimum Corporate Contribution). See Exchange Act Release No. 91199 (Feb. 24, 2021), 86 FR 12237, 12241 (Mar. 2, 2021) (File No. SR-OCC-2021-003).

¹¹ See OCC Rule 1006(e)(ii).

¹² 7 USC 7a-2(c).

¹³ 17 CFR 40.1(i).

The Policy's scope would include the safeguarding standards and investment activities specific to OCC's own cash ("OCC Cash") and cash from OCC's Clearing Members ("Clearing Member Cash").

The Policy would define OCC Cash to include working capital related to future operating costs, inclusive of financial resource held to meet liquidity and resiliency requirements,¹⁴ proceeds from lines of credit, if any, maintained to support OCC's working capital,¹⁵ the Minimum Corporate Contribution,¹⁶ and investments made with OCC Cash. The Policy would not apply to cash held in respect of OCC's pension plan, post-retirement welfare plan, or other deferred compensation plans. The Policy would define Clearing Member Cash to include Clearing Fund cash deposits; cash deposited by Clearing Members in respect of margin requirements; cash held in liquidating settlement accounts for suspended Clearing Members,¹⁷ proceeds from OCC's syndicated credit facility and liquidity facilities,¹⁸ and investments made with Clearing Member Cash.¹⁹ The Policy would not apply to non-cash collateral deposited by Clearing Members to satisfy margin or Clearing Fund requirements.

Safeguarding Standards

The Policy would address the safeguarding standards for managing OCC Cash and Clearing Member Cash, which OCC would either hold in a demand deposit or Federal Reserve Bank accounts or invest in accordance with OCC's By-Laws and investment strategy, as discussed below.

OCC Cash

Unless invested, OCC Cash would be held in demand deposit accounts or at a Federal Reserve Bank. Demand deposit accounts would be limited to commercial financial institutions that

¹⁴ See Exchange Act Release No. 88029 (Jan. 24, 2020), 85 FR 5500, 5501-02 (Jan. 30, 2020) (File No. SR-OCC-2019-007) (discussing the determination of Target Capital Requirement under OCC's Capital Management Policy).

¹⁵ Working capital lines of credit, if any, are separate from the syndicated credit facility and liquidity facilities that OCC maintains to cover default losses or liquidity shortfalls. See Exchange Act Release No. 88971 (May 28, 2020), 85 FR 34257 (June 3, 2020) (File No. SR-OCC-2020-804) (discussing OCC's revolving credit facility); Exchange Act Release No. 89039 (June 10, 2020), 85 FR 36444 (June 16, 2020) (File No. SR-OCC-2020-803) (discussing OCC's non-bank liquidity facility).

¹⁶ See Exchange Act Release No. 92038 (May 27, 2021), 86 FR 29861 (Jun. 3, 2021) (File No. SR-OCC-2021-003) (establishing a persistent minimum level of OCC's own capital that it would contribute to default losses or liquidity shortfalls prior to allocating a default loss to the Clearing Fund contributions of non-defaulting Clearing Members).

¹⁷ See OCC Rule 1104.

¹⁸ See *supra* note 15 (citing SEC notices of no-objection to advance notices concerning OCC's credit and liquidity facilities).

¹⁹ See *supra* note 5 and accompanying text.

meet initial and ongoing standards for depository banks outlined in OCC's procedures concerning its banking relationships.

Treasury would be responsible for maintaining appropriate levels of liquidity in OCC's operating accounts to meet general business obligations and regulatory requirements. To fulfill this responsibility, the Policy would provide that OCC may maintain bank lines of credit for working capital purposes. The source of such credit line would need to meet the standards for credit facility banks outlined in OCC's procedures concerning its banking relationships.

Clearing Member Cash

The Policy would provide that unless invested, Clearing Member Cash would either be held in a demand deposit account or in accounts at a Federal Reserve Bank. With respect to commercial banks, Clearing Member Cash would only be held in financial institutions that meet the initial and ongoing standards for depository banks as provided in in OCC's procedures concerning banking relationships. The Policy would provide that Clearing Member Cash collected at OCC's settlement banks may be transferred to other depository banks, including to and from OCC's bank accounts for settlement, investment, and cash management purposes. Upon the suspension of a Clearing Member, OCC would promptly move all margin and Clearing Fund cash related to the Clearing Member into a liquidating settlement account for use in meeting the obligations of the Clearing Member, as provided under OCC's Rules.²⁰ Treasury would be responsible for ensuring accounts are appropriately funded to meet financial obligations. Interest earned on Clearing Fund cash deposits held at a Federal Reserve Bank would accrue to the benefit of Clearing Members, less a cash management fee.

The Policy would also provide that OCC would employ a bank account structure that segregates customer funds per applicable regulatory requirements²¹ and OCC's By-Laws and Rules.²² Futures customer segregated cash would be held in segregated fund accounts pursuant to applicable Commodity and Futures Trading Commission ("CFTC") regulations, including that OCC ensures that it receives proper written acknowledgment from the depository for each new segregated funds account that the account has been established to hold segregated cash generated from futures customers.²³ The Policy would further provide that if OCC sustains an investment loss with respect to invested margin cash OCC will not pass on the loss to a futures customer segregated account.

²⁰ See OCC Rule 1104.

²¹ See 17 CFR 39.15 (requiring a DCO to comply with the segregation requirements section 4d of the Commodity Exchange Act).

²² See OCC By-Laws Art. VI, Sec. 3(f) (providing for maintenance of segregated futures accounts).

²³ See 17 CFR 1.20(g)(4).

Investment Guidelines

The Policy would also provide guidelines for investments permitted by OCC's By-Laws and Rules and approved by the Board or Compensation and Performance Committee ("CPC"), including OCC's investment strategy, investment governance principles, and guidelines for the investment of OCC Cash and Clearing Member Cash.

Investment Strategy

The Policy would provide that OCC's investment strategy is to preserve principal and maintain adequate liquidity. After principal and liquidity requirements are satisfied, only then would Management seek to optimize investment returns. OCC would disclose its investment strategy through its public website on a periodic basis via its qualitative disclosures to the Principles for Financial Market Infrastructure Disclosures.²⁴

Investment Governance Principles

The Policy would provide that OCC may invest OCC Cash and Clearing Member Cash in permitted investments per applicable regulatory requirements, OCC's By-Laws and Rules, the investment strategy and the following governance principles. Current investment practices would be outlined in procedures maintained by OCC. Investment counterparties would need to be financial institutions or financial market utilities that meet initial and on-going standards outlined in OCC's procedures concerning its banking relationships, which consider the financial institution's size, capital adequacy, product offering and operational capabilities. Any interest or gain received on the investments would belong to OCC except as may otherwise be provided in OCC's By-Laws, Rules or Board-approved policies.²⁵ OCC would not commingle investments of OCC Cash with investments of Clearing Member Cash.

Investment of OCC Cash

The Policy would provide that OCC Cash may be invested in instruments that pose minimal credit and liquidity risk pursuant to applicable regulatory requirements, OCC's By-Laws, the investment strategy, and Board or CPC approved investments. Approved investments other than in Government securities would continue to be subject to Board or CPC approval, as required under

²⁴ See Disclosure Framework, available at <https://www.theocc.com/Risk-Management/PFMI-Disclosures>.

²⁵ As discussed, interest earned on Clearing Fund cash deposits held at a Federal Reserve Bank would accrue to the benefit of Clearing Members, less a cash management fee.

Section 1 of Article IX of OCC's By-Laws.²⁶ In addition, investment of working capital in excess of 110% of OCC's Target Capital Requirement would not be limited to overnight transactions.²⁷

Investment of Clearing Member Cash

The Policy would further provide that Clearing Member Cash may be invested in Government securities by OCC in transactions that provide next-day liquidity in accordance with applicable regulatory requirements, OCC's Rules, and the investment strategy, subject to the following guiding principles. First, the Policy would provide that notwithstanding the authority to invest Clearing Fund cash under OCC Rule 1002(c), it is OCC's policy not to invest Clearing Fund cash, which is instead maintained in accounts at a Federal Reserve Bank or a commercial bank. This policy would be subject to an exception approved by the Chief Executive Officer or Chief Operating Officer in emergency situations (such as a disruption at a Federal Reserve Bank) when necessary or advisable for the protection of the Corporation or otherwise in the public interest to continue to facilitate the prompt and accurate clearance and settlement of confirmed trades or other transactions and to provide OCC's services in a safe and sound manner. Second, the Policy would provide that margin cash would only be invested in instruments that provide liquidity to OCC by the following business day. Third, the Policy would provide that OCC will implement procedures to ensure that end-of-day margin cash balances remain above the aggregate level of any Required Cash Deposits, as that term is defined in OCC's Liquidity Risk Management Framework.²⁸ The policy with respect to investing Required Cash Deposits would be subject to the same exception as for investment of Clearing Fund cash. Fourth, any change regarding whether to investment futures customer

²⁶ In addition to investments in Government securities through overnight DVP transactions, the Board has approved investments of OCC's own cash in U.S. government money market mutual funds.

²⁷ With respect to OCC's liquid net assets funded by equity in excess of 110% of the Target Capital Requirement, the Board has initially approved investment of such funds in Government securities through DVP transactions for terms no more than 30 days.

²⁸ The Liquidity Risk Management Framework defines "Required Cash Deposits" (sometimes referred to as minimum cash requirements or "MCR") as deposits of cash under OCC's Contingency Funding Plan that supplement OCC's Base Liquidity Resources (i.e., the amount of committed liquidity resources maintained at all times by OCC to meet its minimum Cover 1 liquidity resource requirements under the applicable regulations). Under that framework, OCC may require a Clearing Member Group to post such additional cash collateral to supplement OCC's Available Liquidity Resources (i.e., Base Liquidity Resources plus allowed Clearing Fund cash deposits in excess of the minimum required amount) when stressed liquidity demands for that Clearing Member Group are above established thresholds or until the settlement demand is met. See Exchange Act Release No. 89014 (June 4, 2020), 85 FR 35446, 35449 (June 10, 2020) (File No. SR-OCC-2020-003).

segregated funds would be approved by OCC's Chief Financial Officer in consultation with OCC's Legal and Compliance departments.²⁹

The Policy would also describe how OCC maintains liquidity facilities for immediate access to liquidity in the event of a suspension of a Clearing Member or a failure of a bank, securities or commodity clearing organization, or investment counterparty (with respect to the investment of Clearing Member Cash) to meet an obligation owing to OCC, or in anticipation thereof, pursuant to OCC Rules 1006(c) and (f), proposed amendments to which are discussed below. The liquidity providers for these facilities would be approved and monitored according to the OCC's Third-Party Risk Management Framework and Liquidity Risk Management Framework.³⁰

Amendments to OCC Rule 1006

OCC proposes to amend OCC Rule 1006, which governs its ability to access the Clearing Fund in the event of the failure (or anticipated failure) of bank to meet a settlement obligation with OCC, to extend such access to the failure of a non-bank investment counterparty to meet settlement obligations with OCC under the conditions identified in OCC Rule 1006(c) and (f). In addition, OCC proposes to restate OCC Rule 1006(f) for clarity.

To ensure that OCC may access the Clearing Fund in the event of a failure or disruption of a non-bank counterparty with whom OCC has invested Clearing Member Cash, OCC would amend OCC Rule 1006(f) to include "investment counterparty" to the list of counterparties—currently, any bank or securities or commodities clearing organization—whose failure or disruption may result in a borrowing under Rule 1006(f). Similarly, OCC would also amend OCC Rule 1006(a) and (c) to add the same phrase to the list of counterparties whose failure resulting from bankruptcy, insolvency, receivership, suspension of operations, or any similar event may result in allocation of losses to the Clearing Fund. Rule 1006(c) and (f) would be further amended to provide that failure of an investment counterparty under those paragraphs would be limited to a failure with respect to Clearing Member Cash (i.e., cash invested under Rule 604(a) or Rule 1002(c)).³¹ Any investment loss resulting from investment of OCC Cash would be treated as an operational loss that would be

²⁹ Like Clearing Fund cash, OCC does not currently invest futures customer segregated funds. If OCC determined to invest such funds, such investments would be subject to CFTC regulations regarding a DCO's investment of futures customer funds. See 17 CFR 1.25.

³⁰ See Exchange Act Release No. 90797 (Dec. 23, 2020), 85 FR 86592 (Dec. 30, 2020) (File No. SR-OCC-2020-014) (approving OCC's framework for identifying, measuring, monitoring, and managing OCC's exposures to its counterparties); Exchange Act Release No. 89014, 85 FR 35446 (approving OCC's approach to managing liquidity risk).

³¹ The same limitation would apply to Rule 1006(a), which incorporates the reasons specified in Rule 1006(c) by reference.

addressed under OCC's Capital Management Policy, rather than a loss that would be allocated to the Clearing Fund.³²

OCC would also amend the condition that triggers borrowing authority under Rule 1006(f)—currently clause (iii) of the first sentence of Rule 1006(f)—which would be renumbered as Rule 1006(f)(1)(C). That condition would be amended to apply when the Corporation reasonably believes it necessary to borrow to meet its liquidity needs for “daily settlement” rather than “same-day settlement,” as in the current text. OCC may reasonably believe that a disruption at a bank, securities or commodities clearing organization, or investment counterparty could last multiple days, resulting in liquidity needs for daily settlement over more than one day. This amendment would ensure that OCC has authority to initiate a borrowing for the amount OCC believes necessary to meet its liquidity needs over the timeframe OCC believes the disruption will affect OCC's ability to meet daily settlement requirements with Clearing Members, rather than only that amount that OCC believes it needs on a day-by-day basis.

OCC would further amend the condition in Rule 1006(f)(1)(C) to apply when OCC reasonably believes such a liquidity need will arise because of one of the identified counterparty's failure “to perform any obligation to the Corporation when due,” rather than such a counterparty's failure “to achieve daily settlement.” This change aligns with the condition for allocation of losses under Rule 1006(c) and eliminates any ambiguity that might arise concerning the settlement obligations to which the current Rule refers. As under the current Rule, use of funds obtained through such a borrowing would continue to be limited to the purposes described in Rule 1006(f)(1)(C), as amended, *i.e.*, to meet OCC's liquidity needs for daily settlement with Clearing Members.

In addition to the substantive changes discussed above, OCC would also restate Rule 1006(f) for clarity. The current paragraph would be divided into four subparagraphs with courtesy headings: (1) Conditions; (2) Uses; (3) Term; Clearing Fund Charge; and (4) Substitution Requests. The conditions in Rule 1006(f)(1) would begin with the first sentence of current Rule 1006(f), less the conjoined clause beginning with “and use such assets,” the substance of which would be moved to paragraph (f)(2). The remaining clause before the conjunction would be amended to describe OCC's investment of Clearing Fund cash contributions in the active voice. The three conditions for a borrowing identified in Rule 1006(f), currently numbered (i) through (iii), would then follow after the conjunction as items (A) through (C). Item (A) would be further amended to remove legalese and state the condition more plainly. Item (C) would be amended substantively as discussed above.

The prescribed uses for the borrowed funds described in several places throughout current Rule 1006(f) would be aggregated in Rule 1006(f)(2). As currently found in the conjoined clause in the first sentence of current Rule 1006(f), Rule 1006(f)(2)(A) would provide that OCC may use funds it takes possession of under Rule 1006(f) to (i) meet obligations, losses or liquidity needs; or (ii) borrow or otherwise obtain funds through any means determined to be reasonable at the

³² See Exchange Act Release No. 88029, 85 FR at 5502-03 (discussing OCC's plan for replenishing its capital in the event that shareholders' equity falls below certain thresholds).

discretion of the Chairman, Chief Executive Officer or the Chief Operating Officer (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions). Proposed Rule 1006(f)(ii) would also be restated to remove a gendered pronoun. Rule 1006(f)(2)(B) would describe the limitations on use of funds borrowed under the renumbered conditions in Rule 1006(f)(1)(A) and (C).

Rule 1006(f)(3) would contain the term for a borrowing, as well as the conditions that would trigger a loss chargeable to the Clearing Fund. The 30-day period before which OCC would be obligated to charge a borrowed amount as a loss to the Clearing Fund would be located at Rule 1006(f)(3)(A), with certain non-substantive edits to the text. The conditions that would trigger the loss allocation to the Clearing Fund would be located at Rule 1006(f)(3)(B) and would be restated to move the lengthy conditions after the main clause, among other non-substantive revisions.

Finally, Rule 1006(f)(4) would relocate OCC's authority to refuse Clearing Member substitution requests regarding securities contributed to the Clearing Fund that the Corporation has taken possession of under Rule 1006(f). In addition to relocating that provision to the end of Rule 1006(f), this proposed rule change would restate that provision to reflect the reorganization of Rule 1006(f).

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:

Treatment of Funds. OCC believes that implementing the Policy will be aligned with Core Principle F,³³ which requires that each DCO (i) establish standards and procedures that are designed to protect and ensure the safety of member and participant funds and assets, (ii) hold member and participant funds and assets in a manner by which to minimize the risk of loss or of delay in the access by the DCO to the assets and funds, and (iii) invest funds and assets in instruments with minimal credit, market and liquidity risks, including the investment of clearing member funds and assets pursuant to CFTC Rule 39.15 under the Act. CFTC Rule 39.15 further provides that a DCO shall comply with the applicable segregation requirements applicable to futures customer funds and assets, and that to the extent the DCO invests futures customer funds, such investments comply with the requirements of CFTC Rule 1.25.³⁴ In addition, the custody and investment arrangements of a Subpart C DCO's own funds and assets are subject to the same requirements as those specified under CFTC Rule 39.15 for the funds and assets of a clearing member.³⁵

³³ 7 U.S.C. 7a-1(c)(2)(F).

³⁴ 17 CFR 39.15.

³⁵ 17 CFR 39.36(f).

The Cash and Investment Management Policy is designed to safeguard cash and related investments within OCC's custody or control. The Policy applies to, among other things, cash deposited by Clearing Members in respect of margin and Clearing Fund requirements, any Government securities in which OCC invests such cash, and the Minimum Corporate Contribution, each of which are liquid resources available to facilitate settlement and to cover potential losses in the event of a Clearing Member default. The Policy also extends to OCC's own cash, including cash OCC maintains to cover potential general business losses so that OCC can continue operations and services as a going concern if those losses materialize, in accordance with OCC's Capital Management Policy. By providing safeguarding standards for managing such cash and related investments, the Policy would help ensure those resources will be available to facilitate settlement, cover potential default losses, or cover potential general business losses, as applicable. In addition, the Policy sets forth OCC's conservative investment strategy, according to which OCC's primary objective is to preserve principal and maintain adequate liquidity. The Policy also requires cash and related investments to be maintained with counterparties that have been initially approved and routinely monitored in accordance with OCC's Third Party Risk Management Policy and procedures governing banking relationships. Accordingly, OCC believes the Policy would establish standards and procedures that are designed to protect and ensure the safety of member and participant funds and assets, hold member and participant funds and assets in a manner by which to minimize the risk of loss or of delay in the access by OCC to the assets and funds, and ensure that that Clearing Members' and OCC's own funds and assets are invested in instruments with minimal credit, market and liquidity risks.

OCC also believes that the Policy is consistent with CFTC regulations concerning the segregation of futures customer funds and assets by providing that OCC will employ a bank account structure that segregates such funds and obtains required acknowledgments from the depositories that the accounts are established to hold such funds. While OCC does not currently invest futures customer segregated funds, the Policy would provide that if OCC were to begin doing so, such a change would be made in consultation with OCC's Legal and Compliance departments, which would help to ensure that any such investment would be compliant with CFTC regulations regarding a DCO's investment of such funds. Accordingly, OCC believes that the Policy would facilitate compliance with the CFTC's segregation requirements and permitted investments for futures customer funds and assets, should OCC determine in the future to invest such funds.

Default Rules and Procedures. OCC believes that implementing the proposed rule amendments aligned with Core Principle G, which requires, in part, that each DCO clearly state the default procedures of the DCO, make publicly available the default rules of the DCO, and ensure that it may take timely action to contain losses and liquidity pressures and to continue meeting each obligation of the DCO. As described above, this proposal would amend OCC's Rules concerning loss allocation in the extremely unlikely event that the failure or disruption of a non-bank investment counterparty results in a loss to OCC arising from the investment of Clearing Member Cash. The expansion of existing authority to allocate such losses attributable to a non-bank investment counterparty helps establish a more transparent and clear loss allocation process and ensure OCC's

authority to take action to contain losses and continue to meet its clearance and settlement obligations. OCC would post its Rules, as amended, to its public website.

Opposing Views

No opposing views were expressed related to the rule amendments. Public comment on the rule amendments, if any, can be found in the SEC comment files for File Numbers SR-OCC-2021-014 and SR-OCC-2021-803.³⁶

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been be given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the proposed rule change on OCC's website concurrently with the filing of this submission.

³⁶ See Options Clearing Corporation (OCC) Rulemaking, <https://www.sec.gov/rules/sro/occ.htm>; OCC Advance Notice Rulemaking, <https://www.sec.gov/rules/sro/occ-an.htm>.

Christopher J. Kirkpatrick
February 1, 2022
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Certification

OCC hereby certifies that the rule set forth at Item 1 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/ Mark C. Brown
Assistant General Counsel

Enclosure: Confidential Exhibit A; Exhibit B

Exhibit B



OCC RULES

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

~~Double Strikethrough~~ text indicates text moved to another location

Double Underlined text indicates text moved from another location

THE OPTIONS CLEARING CORPORATION

RULES

* * *

CHAPTER X CLEARING FUND CONTRIBUTIONS

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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 to 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 on or arising from any confirmed trade accepted by the Corporation, (ii) 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, (iii) 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, (iv) in connection with any liquidation of a Clearing Member's open positions, (v) in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules, (vi) as a result of the failure of any Clearing Member to make any other required payment or render any other required performance, or (vii) as a result of the failure of any bank, ~~or~~ securities or commodities clearing organization, or investment counterparty to perform its obligations to the Corporation for reasons specified in paragraph (c) of this Rule 1006. 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 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 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.

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(c) *Bank ~~or~~, Clearing Organization or Investment Counterparty Failures.* (i) If any bank, ~~or~~ securities or commodities clearing organization, or investment counterparty shall fail to perform any obligation to the Corporation when due because of its bankruptcy, insolvency, receivership, suspension of operations, or any similar event, and the Corporation shall sustain a loss (whether directly or as a trustee, custodian, or secured party) by reason thereof that is not recoverable out of the Clearing Fund pursuant to paragraph (b), the Corporation may, in its discretion, reimburse itself for such loss out of the Clearing Fund pursuant to this paragraph (c), and the amount of any

such reimbursement shall be charged proportionately against all Clearing Members' required contributions to the Clearing Fund as calculated at the time. Failure of an investment counterparty under this paragraph shall be limited to a failure with respect to cash invested under Rule 604(a) or Rule 1002(c).

(ii) With respect to any borrowing by the Corporation for liquidity needs for ~~same day~~ daily settlement pursuant to the authority in paragraph (f) of this Rule, whenever such amount is considered an actual loss pursuant to paragraph (f) the amount of any such loss shall be charged proportionately against all Clearing Members' required contributions to the Clearing Fund as calculated at the time.

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(f) *Borrowings.* (1) *Conditions.* The Corporation may take possession of cash or securities deposited by Clearing Members as contributions to the Clearing Fund and securities in which the Corporation has invested Clearing Fund cash contributions ~~to the Clearing Fund have been invested by the Corporation and use such assets to meet obligations, losses and/or liquidity needs arising from the circumstances described in (i) through (iii) below or to borrow or otherwise obtain funds through any means determined to be reasonable by the Chairman, Chief Executive Officer or the Chief Operating Officer of the Corporation in his discretion (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions)~~ if:

(~~i~~A) the Corporation deems it necessary or advisable to borrow or otherwise obtain funds in order to meet obligations arising out of the default or suspension, or in anticipation of the potential default or suspension, of a Clearing Member or any action taken by the Corporation to address such an actual or potential default or suspension ~~connection therewith pursuant to Chapter XI of the Rules or otherwise;~~

(~~ii~~B) the Corporation sustains a loss reimbursable out of the Clearing Fund pursuant to paragraph (c) but elects to borrow or otherwise obtain funds in lieu of immediately charging such loss to the Clearing Fund; or

(~~iii~~C) the Corporation reasonably believes it necessary to borrow to meet its liquidity needs for ~~same day~~ daily settlement as a result of the failure of any bank, ~~or~~ securities or commodities clearing organization, or investment counterparty to achieve daily settlement to perform any obligation to the Corporation when due. Failure of an investment counterparty under this paragraph shall be limited to a failure with respect to cash invested under Rule 604(a) or Rule 1002(c).

(2) *Use of Funds.* (A) The Corporation may use funds it takes possession of under Rule 1006(f) to:

(i) meet obligations, losses or liquidity needs; or

(ii) borrow or otherwise obtain funds through any means determined to be reasonable at the

discretion of the Chairman, Chief Executive Officer or the Chief Operating Officer (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions). ~~To the extent the Corporation has borrowed or otherwise obtained funds using securities deposited by Clearing Members as contributions to the Clearing Fund or securities in which cash contributions to the Clearing Fund have been invested, the Corporation may refuse any Clearing Member substitution request regarding such securities.~~

(B) In the case of ~~any such~~ borrowing under conditions (1)(A) or (1)(C) ~~or transaction effected under the circumstances specified in clause (i) or clause (iii) above~~, the funds obtained will be used solely for the purposes described in conditions (1)(A) and (1)(C) ~~clause (i) or clause (iii)~~, as applicable.

(3) *Term; Clearing Fund Charge.* (A) The funds obtained by the Corporation ~~pursuant to this under~~ paragraph (f), irrespective of how such funds are applied, shall not be deemed to be charges against the Clearing Fund for a period not to exceed ~~thirty~~30 days, and, during said period, shall not affect the amount or timing of any charges otherwise required to be made against the Clearing Fund pursuant to this Chapter X.

(B) At the close of business on a Business Day, the Corporation shall consider the amount of Clearing Fund assets used to support the Corporation's obligations under the outstanding borrowing or transaction as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with this Chapter X if:

~~If all or a part of any borrowing of cash from the Clearing Fund or any transaction effected by the Corporation pursuant to this paragraph (f) is thereafter determined by (i) on any Business Day, the Corporation determines, in its discretion, on any Business Day, all or part of any borrowing or transaction under paragraph (f) to represent~~ an actual loss to the Clearing Fund, a loss to the Corporation reimbursable out of the Clearing Fund; ~~;~~ or

(ii) all or a part of any ~~such~~ borrowing or transaction under Rule 1006(f) remains outstanding after ~~thirty~~30 days (or on the first Business Day thereafter if the thirtieth calendar day is not a Business Day), ~~the Corporation, at the close of business of on such Business Day shall consider the amount of Clearing Fund assets used to support the Corporation's obligations under the outstanding borrowing or transaction as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with this Chapter X.~~

(4) *Substitution Requests.* The Corporation may refuse any Clearing Member substitution request regarding securities contributed to the Clearing Fund that the Corporation has taken possession of under Rule 1006(f).