

Part of the infrastructure

The Options Clearing Corporation's Scot Warren explores the role of central clearing and how it could be applied to securities lending in the future

Today, the Options Clearing Corporation (OCC), in its role as a systemically important financial market utility (SIFMU), serves 13 options exchanges and four futures exchanges, along with approximately 120 clearing member firms. Operating under the jurisdiction of the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission (CFTC), OCC clears transactions for put and call options on common stock and other equity issues, stock indexes, foreign currencies, interest rate composites, stock loan, and single stock futures. As a registered derivatives clearing organisation (DCO) under CFTC jurisdiction, OCC offers clearing and settlement services for transactions in futures and options-on-futures contracts.

Having established its credentials as a foundation for secure markets in an increasingly global post-trade environment, OCC is working to extend its securities finance capabilities. OCC is the only US central counterparty (CCP) for equity stock loan transactions where it guarantees return of stock or cash to bilateral and exchange-traded stock loan participants.

OCC created its stock loan clearing service based on demand from its market participants. OCC's stock loan programme began in 1993 with 10 clearing member firms and allowed market-making firms to offset their option positions with stock loan positions, thereby reducing their OCC margin requirement as they were margin requirements on both their bilateral stock loan positions and the related transactions cleared at OCC. Transactions numbered under a few hundred a day.

Today, there are now 70 OCC clearing members conducting an average of 5,000 transactions per day with open interest measuring roughly \$190 billion. Clearing volume at OCC is up 16 percent so far in 2015, with notional value growth up 1,119 percent since 2011. The growth in transactions and loan value reflects a shift toward CCP clearing.

According to Markit, the market for stock loan was measured at \$2 trillion in April. OCC estimates that it currently clears approximately 10 to 15 percent of the US equities stock loan

market. Regulatory change is creating a tailwind for cleared solutions, resulting in the possibility of CCPs capturing a greater portion of the market.

As new regulations create a more durable and secure financial services industry they have also imposed new costs and requirements that could constrain the industry's capacity. As a result, OCC's programme has migrated over time from providing margin efficiencies to delivering capital and credit efficiencies. With OCC guaranteeing every trade, clearing members' exposure is to OCC, freeing single counterparty credit limits. Basel III risk-based capital requirements are materially lower for CCP cleared transactions than they are for bilateral transactions.

Migration to a CCP solution becomes more efficient from a capital usage perspective for banks and agent lenders. The cost differential between models will likely result in bifurcated pricing for the asset owners, ie, to preserve or enhance revenue streams they will need to participate in cleared solutions.

The programme currently supports the dealer-to-dealer market, however, OCC is actively engaged with market participants to understand opportunities for more direct participants.

The opportunities for credit, capital and collateral efficiencies make OCC a compelling value proposition for market participants. OCC is working with a coalition of industry participants to determine how this programme can be expanded. OCC understands participants want to keep aspects of bilateral trading intact, namely the relationship with their counterparties.

Working with committed market participants, OCC is focused on designing the processing and operational framework that the market needs to function and how we can build the technological, risk management and regulatory framework to support it.

Given the growth and interest in stock loan, we are very pleased with the reception and support of the industry, and we intend to continue working in a very collaborative fashion to determine the future direction of cleared stock loan. [SLT](#)

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Scot Warren, executive vice president, business development and OIC, OCC

