



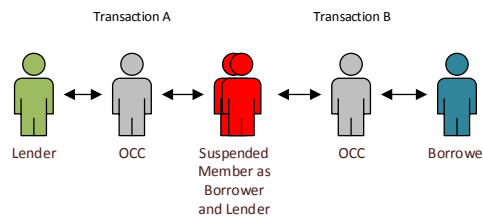
TO: ALL CLEARING MEMBERS
FROM: MATT WOLFE
VICE PRESIDENT – BUSINESS DEVELOPMENT
DATE: August 27, 2018
SUBJECT: STOCK LOAN CLEARING GUARANTEE

This memorandum summarizes the clearing guarantee for each of OCC’s stock loan programs.

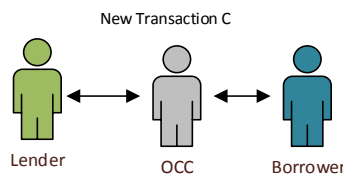
OCC’s stock loan programs currently consist of the Hedge and Market Loan Programs. In both programs, in event of a default, OCC provides a guarantee to non-defaulting clearing members with respect to their cleared stock loan transactions with the defaulted clearing member.

Re-matching of Matched Books within the Hedge Program¹

If a clearing member in the Hedge program is suspended, OCC would seek to re-match non-suspended lending and borrowing clearing members with each other if the suspended clearing member had a matched book of loans and borrows in a given security.”



After re-matching



This re-matching is performed in order of size and uses Master Securities Loan Agreement (MSLA) information provided by the clearing members (those parties with existing MSLAs will be re-matched first.)² This process only applies to clearing members that participate in the Hedge program and,

¹ OCC Rule 2212

² For detailed information on the re-matching procedure refer to Rule 2212 of OCC’s rules. https://www.theocc.com/components/docs/legal/rules_and_bylaws/occ_rules.pdf

when applicable, allows the continuation of Hedge program stock loan contracts between non-defaulting members while closing the positions of the suspended clearing member.³

If there are remaining positions that could not be closed, OCC will instruct non-defaulting members to buy-in or sell-out of stock loan contracts in order to close the positions with a suspended clearing member. As described below, this buy-in / sell-out process also applies to the Market Loan program.

Default of Borrower - Buy-In

OCC will instruct the non-defaulting lending clearing member to execute a buy-in of the lent stock(s) using the cash collateral provided by the suspended borrowing clearing member. The non-defaulting lending clearing member (or “surviving lender”) has until the end of the following business day after the day on which notice of suspension is provided to perform such buy-in transaction and advise OCC as to its cost. If the buy-in price is not reported to OCC by the close of the business day following the notice to buy-in, OCC will use the closing price on that day to compute a final mark and automatically close out the position on its books. In either case (via buy-in or closing mark,) if the cost of the repurchased stock (plus transactional fees) is more than the collateral, OCC is obligated to pay the shortfall amount to the surviving lender on the morning following the termination of the position.⁴ Conversely, any excess collateral amount will be drafted by OCC from the surviving lender’s account for credit to the suspended borrower’s liquidation settlement account.

Default of Lender - Sell-Out

OCC will instruct the non-defaulting borrowing clearing member (or “surviving borrower”) to sell-out the borrowed stock(s) in order to return the collateral and terminate the stock borrow positions with the suspended lending clearing member. Similar to a buy-in, the surviving borrower has until the end of the following business day on which the notice of suspension is provided to execute the sell-out and advise OCC to the price/ proceeds received for the sold stock(s). If the surviving borrower does not perform the sell-out transaction by such day, OCC will use the close of business stock price in order to compute the cash settlement value as if the surviving borrower had performed the sell-out of the stock at the close on such day. In either case, if the proceeds received (including transaction costs) or computed amount result in a shortfall of cash being returned to the surviving borrower, OCC is obligated to pay the shortfall the morning following the termination of the position.⁵ If the surviving borrower receives excess cash through this process, OCC will debit such funds from the surviving borrower and credit the liquidation settlement account of the suspended lender.

In conclusion, any cleared stock loan transactions that are not re-matched are ultimately settled either by buy-in/sell-out procedures executed by the surviving party or by using the market price at the close of business to terminate the position.

Dividend Equivalent Payments and/ or Rebate Payments

In the event of a default / suspension of a clearing member, OCC **does not** guarantee Dividend Equivalent Payments or Rebate payments for those transactions cleared in the **Hedge** program.

In the event of a default / suspension of a clearing member, OCC **does** guarantee Dividend Equivalent Payments and/ or Rebate payments for those transactions cleared in the **Market Loan** program.

³ Further notifications to depositories may also be required by the surviving clearing members.

⁴ Lender should be prepared to defend purchase price or transactional fees if required.

⁵ Borrower should be prepared to defend purchase price or transaction fees if required.

The following table summarizes the concepts and guarantees that apply to each OCC Stock Loan Program.

OCC Program		
Default Aspects	Hedge	Market Loan
Counterparties returned stock/collateral or receive the value of the stock/collateral	✓	✓
Re-matching may occur	✓	
Buy-in or sell-out may occur	✓	✓
Net dividend payments guaranteed		✓
Rebate payments guaranteed		✓

If you should have any question please do not hesitate to contact Matt Wolfe, mwolfe@thocc.com, 312.322.3826 or Cheryl Martin, cmartin@theocc.com, 312.322.1843.⁶

⁶ Informational Memos from 04/13/2017 "Stock Lending Programs Risk Enhancement Rule Filing Update" and 04/29/2017 "Automated Buy-In/ Sell-Out Processing" may be referenced for further information, located on <https://www.theocc.com/>. OCC rules can be found at this link https://www.theocc.com/components/docs/legal/rules_and_bylaws/occ_rules.pdf