



**THE FOUNDATION  
FOR SECURE  
MARKETS**

**#46315**

**TO: ALL CLEARING MEMBERS**  
**FROM: Credit Risk Management**  
**DATE: JANUARY 8, 2020**  
**SUBJECT: OCC Risk Management Examinations**

OCC Rule 311 requires each clearing member to maintain current written risk management policies and procedures that address the risks the member may pose to OCC. As announced in Information Memo #34384, OCC has been conducting risk reviews of clearing members' risk management policies, procedures and practices since 2014, pursuant to OCC Rule 311 and OCC's obligations under CFTC Regulation 39.13(h)(5)(ii). As part of these reviews, OCC examiners generally will review the risk management policies, procedures and practices detailed below.<sup>1</sup> The policies, procedures and practices listed below are based upon OCC's review of policies and procedures across clearing members over the past five years and that OCC believes are generally applicable to the examination of all clearing members. In addition, OCC examiners may review policies, procedures and practices that are specific to a clearing member's business activities cleared at OCC, Watch Level Reporting pursuant to OCC's Counterparty Credit Risk Management Policy, or prior examinations, among other factors. OCC examiners will communicate any firm-specific risk management policies, practices and procedures for review to each clearing member at the outset of that member's risk exam.

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<sup>1</sup> OCC reminds members that Rule 311(b) requires each member to "provide to the Corporation such information and documentation as may be requested by the Corporation from time to time regarding such [member's] risk management policies, procedures, and practices, including, but not limited to, information and documents relating to the liquidity of its financial resources and its settlement procedures."

During its risk reviews, OCC examination staff generally will review the following, as applicable to the particular member:

- The member's risk management governance
- The member's liquidity management, including its process to meet OCC daily settlements, potential Clearing Fund assessment obligations, and other obligations that may arise or be forecasted by OCC from time to time
- The manner and frequency of the member's liquidity stress testing
- The process a member will utilize to address stressed liquidity conditions, including contingent sources of funding and the supervisory process
- The member's alternative settlement bank procedures
- The risk evaluation performed by a member when onboarding a new client, counterparty, or correspondent
- The ongoing market risk monitoring of clients, counterparties, or correspondents, including the manner and frequency of the member's market stress testing program and monitoring of concentration risk
- The member's margin policy and procedures
- Expertise of risk management personnel and capabilities of risk systems utilized
- Special risks related to cross-margin, joint back office, and market maker accounts
- The monitoring and reconciliation of give-up trades, both inbound and outbound
- How pre- and post-trade risk controls are calibrated and utilized
- Demonstration of the ability to maintain clearing capacity, including during periods of heavy transaction volume, pursuant to members' obligations under OCC Rule 214(d)
- The member's submission of long option spread instructions to verify that it is in compliance with OCC Rule 611
- Subordinated agreements in place if foreign non-customer affiliates are cleared in a firm account at OCC, pursuant to OCC By-laws, Article I, Section "N", entry "Non-Customer"

For OCC Stock Loan members, exam staff generally will also examine whether the member's operational procedures address the following:

- Daily reconciliation of stock loan positions, pursuant to OCC Rules 2205/2205A
- Controlling record for stock loan positions, pursuant to OCC By-Laws, Articles XXI/XXIA
- Stock loan close-out timeframe in the event of an OCC clearing member suspension, pursuant to OCC Rules 2209(b)/2209A(b), 2209(f)/2209A(c), and 2211/2211A
- Re-matching in the event of an OCC Hedge clearing member suspension, pursuant to OCC Rule 2212

For members who are futures commission merchants, exam staff generally will also examine the following:

- The member's Risk Management Program it has implemented in accordance with CFTC Rules 1.11 and 1.73
- The member's process to determine its residual interest

- The member's submission of customer gross margin positions, pursuant to OCC Rule 401 and OCC Information Memo #44712

As announced last year, OCC will also continue to examine clearing members' cybersecurity and business continuity standards as part of its Risk Examination process pursuant to OCC's Third-Party Risk Management program (see OCC Information Memo #43598).

If you have any questions pertaining to this memo, please e-mail the OCC Risk Examinations team at [riskexaminations@theocc.com](mailto:riskexaminations@theocc.com).