



**THE FOUNDATION
FOR SECURE
MARKETS**

#46461

TO: ALL CLEARING MEMBERS

DATE: FEBRUARY 7, 2020

SUBJECT: LIQUIDITY RISK MANAGEMENT

As a Systemically Important Financial Market Utility (“SIFMU”), it is essential that OCC maintains a liquidity risk management framework designed to effectively identify, measure, monitor and manage the liquidity risks that are borne by OCC. OCC is proposing a rule change to amend OCC’s Rules, adopt a new Liquidity Risk Management Framework, and revise OCC’s stress testing methodology to enhance the management of liquidity risk and the sizing and monitoring of OCC’s liquidity resources. The proposed changes are designed to enhance OCC’s overall resiliency, particularly with respect to the level of OCC’s liquidity resources. OCC plans to file the proposed changes with the Securities and Exchange Commission late in the first quarter of 2020. Once the filing has been made OCC will establish a tentative date to implement the proposed changes.

The proposal includes the following enhancements to OCC’s management of liquidity risk:

- Utilize the output of OCC’s existing credit stress testing methodology for liquidity stress testing
- Increase OCC’s Base Liquidity Resources to \$6.5 Billion¹
- Collect additional resources from the Clearing Member Organization (“CMO”) Group responsible for stressed liquidity demands exceeding Available Liquidity Resources
- Provide authority to increase the required Clearing Fund Cash Requirement incrementally
- Implement a two-day notification period on all Clearing Fund collateral substitutions of government securities for cash in excess of the firm’s minimum Clearing Fund cash requirement
 - The two-day notification period will allow OCC to include all available cash in the Clearing Fund into OCC’s Liquidity Resources calculations

OCC’s liquidity risk management approach is designed to allow OCC to hold sufficient qualified liquid resources to enable OCC to meet its settlement obligations with a high degree of confidence under a wide range of foreseeable stress scenarios, including the default of the CMO Group that would generate the largest aggregate payment obligation in extreme but plausible market conditions (“Cover 1” liquidity standard). The primary liquidity risks OCC faces occur between the point of a Clearing Member default and the completion of the liquidation and settlement of the resulting defaulted member’s obligations. These obligations may include mark-to-market obligations on futures and stock loan positions, cash-settled option exercise and assignment activity, and payments resulting from the liquidation of non-expiring positions.

¹ OCC has already increased the minimum cash requirement in the Clearing Fund to \$3.5 Billion dollars utilizing OCC’s current authority under OCC Rule 1002 as detailed in Information Memo [#46147](#).

OCC's proposed Liquidity Risk Management Framework would establish certain activities intended to ensure OCC continuously maintains sufficient liquidity resources to satisfy its payment obligations. OCC performs Liquidity Demand forecasting for a series of future two-day periods to determine if any near-term future periods project a liquidity demand that may challenge OCC's liquidity resources. This forecasting of demands allows OCC to take mitigating actions, including but not limited to issuing a Minimum Cash Requirement ("MCR") for the breaching CMO Group in the event a near-term projected liquidity demand exceeds 90% of OCC's Available Liquidity Resources.

- MCRs are a requirement for Clearing Members to deposit a portion of margin deposits in the form of cash
- MCRs will remain in place until the projected demand no longer exceeds the 90% threshold
- MCRs will generally require funding 5 days before the date of the projected demand but OCC maintains the authority to require funding up to 20 days before the projected demand
- Funding of the MCR is required within one hour of notification

Prior to implementation, OCC will begin distributing *pro forma* Liquidity Sufficiency reporting to Members. This report will contain the largest forecasted daily liquidity requirements of a Clearing Member. The anticipated distribution will begin late in the first quarter of 2020 and will be made available to the membership for analysis through the ENCORE system. OCC will publish additional information on that process closer to that date.

Questions regarding this memo can be addressed to Member Services at 800-544-6091. Within Canada, call 800-424-7320.

Additional contact information: Member Services - memberservices@theocc.com
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