



**THE FOUNDATION
FOR SECURE
MARKETS**

#48718

TO: ALL CLEARING MEMBERS

DATE: MAY 17, 2021

SUBJECT: TEMPORARY INCREASE TO CLEARING FUND SIZE

OCC is issuing this Information Memorandum to notify Clearing Members of a temporary increase in the size of the Clearing Fund. OCC recently discovered an error in the treatment of its Liquidation Cost Add-On charge in Clearing Fund shortfall calculations.¹ This error has resulted in the Clearing Fund being sized at a level below the amount that should be required under OCC's stress testing and Clearing Fund methodology.

In October 2019, OCC modified the STANS margin methodology by adding a risk-based liquidation charge intended to account for the cost of liquidating a defaulting Clearing Member's portfolio ("Liquidation Cost Add-On"). As part of the proposal, OCC also modified the Comprehensive Stress Testing and Clearing Fund Methodology so that the value of the Liquidation Cost Add-On charge would effectively be excluded from each Clearing Member's total margin calculation when comparing that number with its stressed shortfall amounts. OCC recently discovered that the Liquidation Cost Add-On charge is not being properly excluded from margin in the Clearing Fund shortfall calculations. As a result, OCC is using its authority under OCC Rule 1001(d) to temporarily increase the size of the Clearing Fund on an intra-month basis until the next monthly sizing of the Clearing Fund on June 1, 2021. Upon the June 1 resizing, the temporary increase will be incorporated into the corrected Clearing Fund shortfall calculations.

Pursuant to OCC Rule 1001(d), OCC is authorized to temporarily increase the size of the Clearing Fund at any time for the protection of the OCC, Clearing Members or the general public. OCC believes the temporary increase in Clearing Fund size is necessary to ensure that OCC's prefunded financial resources are consistent with the amounts required under OCC's stress testing and Clearing Fund methodology and is therefore in furtherance of the integrity of OCC and the stability of the financial system and takes into consideration the legitimate interests of Clearing Members and market participants.

The temporary increase would result in an increase of \$588,378,155 to the Clearing Fund, which will be allocated proportionately among Clearing Members. Clearing Members with a deficit for their portion of the Clearing Fund will receive notification today, May 17, of the amount of the deficit. The acceptable forms of deposit for Clearing Fund deficits include cash and Government securities in accordance with OCC Rule 1002 and minimum Clearing Fund Cash Requirements will apply.

¹ See Securities Exchange Act Release No. 86119 (Jun. 17, 2019), 84 FR 29267, (Jun. 21, 2019) (File No. SR-OCC-2019-004).

Any Clearing Member who does not satisfy a Clearing Fund deficit within the two (2) business day period ending at 9:00am Central Time on May 19, 2021, will be immediately issued a draft upon their bank in order to satisfy any Clearing Fund deficit.

If you have any questions pertaining to this memo, please e-mail Stress Testing Liquidity Risk Management Team at stlrmgroup@theocc.com