



Date: May 11, 2023

Subject: Approved Changes to OCC's Clearing Membership Standards

The Options Clearing Corporation ("OCC") reviewed its existing clearing membership standards and determined it was necessary to amend certain provisions in OCC's By-Laws and Rules to enhance OCC's risk mitigation processes and comprehensively address heightened expectations around financial, operational and systems/data obligations. Please refer to the [approved rule filing](#) for a detailed description of the changes. Final approval and certification of the rule changes will occur at the close of business today and the rule changes will be enforced as of May 12, 2023. There are certain grace periods for financial standards described in detail below. Clearing Members and applicants must be in compliance with the rule changes.

Approved OCC Rule changes were summarized in [OCC Information Memo #51963](#) which is repeated below.

The following is a summary of changes applicable to Clearing Members:

- ☐ Expanded the list of institutions that are eligible for membership as a Clearing Member
- ☐ Amended the financial responsibility standards
- ☐ Streamlined the admissions process
- ☐ Amended Clearing Member staffing requirements
- ☐ Amended operational capability standards
- ☐ Amended the event-based and periodic reporting requirements for Clearing Members
- ☐ Revised the process by which OCC reviews a notification that a Clearing Member is subject to statutory disqualification
- ☐ Updated the minor rule violation disciplinary process
- ☐ Relocated provisions from OCC's By-Laws to OCC's Rules, and reorganized OCC's Rules to increase efficiency and effectiveness

All clearing membership standards have been relocated from OCC's By-Laws and consolidated into OCC's Rules. As a result of these changes, rule numbers have also been modified.

Financial Standards Implementation Grace Period (Rules 301, 306, 307)

One exception to the implementation date of May 12, 2023 is the six-month grace period OCC is providing for Clearing Members to meet the financial responsibility standards, which include Minimum Net Capital or Risk Adjusted Capital of \$10 million USD and the Net Capital Early Warning Threshold of \$12 million USD. OCC expects members to be in compliance with the financial responsibility standards as of November 12,

2023. OCC will continue to communicate and work with members which are impacted by the change in the Financial Standards throughout the grace period.

- U.S. Clearing Members are required to have an initial and ongoing minimum net capital requirement of **\$10 million USD and minimum regulatory ratio standards**. (Rule 301)
- Net Capital Early Warning Threshold of **\$12 million USD**. (Rule 306)
 - In conjunction with the rise in minimum net capital requirement, OCC has raised the Net Capital Early Warning Threshold to \$12 million USD. Clearing Members must notify OCC by next day, prior to 3:00 pm CT (4:00 pm ET), of a Net Capital Early Warning Threshold breach.
- Canadian Clearing Members are required to meet **Risk-Adjusted Capital Standards**. (Rule 301)
 - This standard has been enhanced from Early Warning Reserve Standards to ensure the Clearing Member maintains the financial ability to meet obligations arising from conducting business at OCC.
- The concept of Appointing and Appointed Clearing Members will remain in OCC's rules, but they would no longer be a distinct "membership type." Any Clearing Member serving an Appointed Clearing Member capacity is subject to the same minimum capital requirements as all other Clearing Members, i.e., \$10 million. (Rule 301).
- Capital Distribution Changes (Rule 307A)
 - OCC may restrict capital distributions if the Clearing Member is subject to enhanced monitoring and surveillance per OCC's internal monitoring process or if the distribution would result in increased liquidity risk to OCC. This ensures a Clearing Member maintains sufficient capital to meet obligations at OCC.
 - If a Clearing Member's capital disbursement would subject the Clearing Member to OCC enhanced monitoring or a breach in early warning capital requirement, the Clearing Member is required to request prior written authorization from OCC.

The approval of the rule filing allows the following types of institutions to begin the application process for OCC Membership:

List of Institutions Eligible for Clearing Membership (Rule 201)

- OCC has expanded the list of eligible institutions for clearing membership to include certain banks including:
 - a U.S. national bank registered with the Office of the Comptroller of the Currency for full-service operations.
 - a U.S. state-chartered bank that is a member of the Federal Reserve System.
 - a similar non-U.S. bank registered with its home country national regulatory authority that conducts its activity with OCC through a Federal or State Branch or Agency located in the United States.
 - Approved banks will only be allowed to clear products on a proprietary basis.
 - Financial standards for bank clearing membership.
 - Tier 1 Capital requirement of \$500M USD
 - Tier 1 Capital Ratio of 6%
 - "Adequately-capitalized" measured by PCA Capital Category Ratios for National Banks
- OCC may admit Clearing Members which are domiciled outside of the U.S. and Canada from foreign jurisdictions which are approved by OCC's Risk Committee.
 - After a bank or securities firm domiciled in the U.K., Germany, or France submits a Pre-qualification Application for clearing membership, OCC will begin a Jurisdiction Review.
 - OCC will consider expansion of the list of approved foreign jurisdictions after these jurisdictions have been reviewed by the OCC Risk Committee.

- o Non-U.S. Clearing Members must have effective operational, financial reporting, and risk management staff, with all communications (oral or written) requested by OCC in English, and to state monetary amounts in U.S. dollar equivalents indicating the conversion rate and date used.
- o Financial standards for Non-U.S. Securities Firm clearing membership.
 - Non-U.S. Securities Firms meet their **domestic capital standards**. If OCC is not fully satisfied with or disallows a particular non-U.S. capital regime, it may require an initial and ongoing total equity requirement of \$25 million USD to either supplement or replace the non-U.S. capital standard.
- Non-U.S. Clearing Members may participate in the Market Loan program. (Rule 302)
 - o Canadian Clearing Members must maintain a sub-account in a CDS Clearing and Depository Services Inc. account at DTC and be a subscriber to Loan Market with full access and services while maintaining an agreement with DTC to honor securities lending instructions from OCC.

Clearing Member Staffing Requirements (Rule 303)

- OCC is requiring each Clearing Member to submit and maintain contact information for operational and risk management personnel, financial reporting, and other key staff in a form acceptable to OCC including names, titles, email addresses, and business phone numbers.
 - o Clearing Members must maintain an appropriate number of risk management staff in addition to existing standards for operational and financial reporting staff. All staff must be acceptable to OCC and sufficient to discharge their functions in a timely and efficient manner (including appropriate levels and hours).
 - o If changes occur to member contact personnel, prompt notification to OCC must be made by next day 3:00 pm CT (4:00 pm ET).
 - o OCC has worked with Clearing Members to obtain the contact information of the required personnel as well as confirming current contact information of operational, financial, and other key staff. Please comply with notification requirements if changes to personnel occur.

If you have questions or concerns regarding this memo, please contact your Credit Risk Analyst. Clearing Members may also e-mail: creditriskanalysts@theocc.com.

For Clearing Members which request further information with regard to outsourcing agreements, staffing arrangements, and the proposed notification requirements, please contact your Member Services Representative or email: memberservices@theocc.com.

If you have any questions, please contact your Clearing Member representative or the Member Services Help Desk at the following numbers: 800-544-6091. Within Canada, please call 800-424- 7320. Clearing Members may also e-mail us at memberservices@theocc.com.