



Date: August 14, 2023

Subject: UPDATE - Changes to Collateral Haircut Treatment on Government Security Collateral Deposits, Clearing Bank Capital Requirements, and Letter of Credit Standards

This memo is a follow-up to OCC information memos #52060 and #52156.

On August 10, 2023, OCC received Regulatory approval for the changes described below. Upon implementation, government security margin deposits will be transitioned from the current collateral-in-margin treatment in favor of a fixed haircut schedule, similar to the current treatment of government security clearing fund deposits, after which government securities will no longer be eligible for collateral-in-margin treatment. Alongside this change, OCC will also increase the minimum standards for OCC's Clearing Bank relationships and revise certain OCC Rules regarding the acceptability of letter of credit margin assets. Additional information on each enhancement is provided below.

OCC is planning to implement the collateral haircut changes following close-of-business on Friday, September 8, 2023, with the modified treatment reflected in margin and collateral reports for settlement date Monday, September 11, 2023. The OCC rule change and description can be found at <https://www.sec.gov/rules/sro/occ/2022/34-96533.pdf> and the SEC approval can be found at <https://www.sec.gov/files/rules/sro/occ/2023/34-98101.pdf>.

Government Security Collateral Haircut Treatment:

The modification to the haircut treatment of government security ("GS") margin deposits will affect GS deposits currently margined through STANS (i.e., deposits receiving collateral-in-margin treatment). Currently these GS deposits receive a portfolio-specific haircut, which is unique for every CUSIP and every clearing member account, and the collateral value for these deposits are reflected in Margin reports. Following implementation, the fixed haircut schedule applied to non-CiM GS deposits (i.e., deposits applied on government security types not eligible for collateral-in-margin treatment and all GS Clearing Fund deposits) will also be applied to these GS deposits, and the collateral value for these deposits will shift to Collateral reports. Review of the impact of this change in haircut treatment indicates a slight increase in the value of collateral deposits will be required, as the fixed haircut schedule is generally more conservative than the current portfolio-specific haircuts.

OCC has made two new parallel Core reports available to Clearing Members providing impact. These reports are currently available through ENCORE alongside other production reports.

- **Fixed Collateral Haircut Margin Memo Report:** This report provides an account level comparison of margin and collateral balances under the current and future treatment of government security margin deposits¹. Results are available beginning on activity date December 5, 2022, and will continue to be generated daily through implementation.
- **Parallel Government Collateral Inventory Report:** This report provides the face value, market value, and collateral value under the current and future haircut treatment, as well as total Collateral Value Haircut (“CVH”) and Margin Requirement Haircut (“MRH”) values for all government security inventory. Results are available beginning on activity date January 31, 2023, and will continue to be generated daily through implementation.

As noted above, following implementation government security deposits will no longer be eligible for collateral-in-margin treatment. Please note this modification is NOT applicable to equity deposits receiving collateral-in-margin treatment (i.e., equity deposits will continue to be margined through STANS).

Upon implementation, OCC will have the authority to modify the haircut schedule if market conditions or other considerations make it appropriate to do so. OCC monitors for continued adequacy of the fixed haircut schedule on both a daily and monthly basis and may occasionally determine to modify these rates and may also determine to further delineate the treatment for various government security types and/or maturities. If it is determined that a modification to the fixed haircut schedule is desired, OCC will notify Clearing Members by Information Memorandum at least one business day prior to implementing the new schedule. Upon implementation, the existing fixed haircut schedule will continue to be used, and OCC does not anticipate making any changes for at least four weeks. The current [fixed haircut schedule](#) can be found on OCC’s public website (www.theocc.com) under Explore □ Clearing & Settlement □ Acceptable Collateral & Haircuts.

For financial reporting purposes, firms should continue to use the Margin Memo – Collateral, Stock Loan & Repo Reconciliation report. This report provides margin requirement details absent the impact of equity valued security deposits and stock loan inventory and is designed to provide Clearing Members with a basis for determining item #15 of the Reserve Computation under SEC 15c3-3 (Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts). This information can also be viewed in the STANS Risk Application by selecting the Margin Memo – Collateral & Stock Loan cycle.

Minimum Standards for OCC Clearing Bank Relationships:

The minimum standards for OCC Clearing and Letter of Credit banks are also changing. Updates to existing OCC Rules 203 and 604 I&P .01 will require that these banks, whether domiciled in the U.S or outside the U.S., maintain at least \$500 million (U.S.) in Tier 1 Capital. This is modified from the current standard of \$100 million for U.S. banks and \$200 million for non-U.S. banks. Additionally, Clearing and Letter of Credit banks must maintain a Tier 1 capital ratio of 6% and must be considered “adequately capitalized” as measured by PCA Capital Category Ratios for National Banks.

Letter of Credit Acceptance Standards:

Currently, OCC Rule 604 I&P .08 specifies that the OCC will not accept a letter of credit issued pursuant to Rule 604(c) for the account of a Clearing Member in which the issuing institution, a parent, or an affiliate has an equity interest in the amount of 20% or more of such Clearing Member’s total capital. This Rule is being modified to prohibit the acceptance of a letter of credit for the account of a Clearing

¹ Note that Customer Gross Margin calculations (i.e., SPAN-based requirements for customer segregated futures accounts) are not considered during the generation of these reports.

Member in which the issuing institution, a parent, or an affiliate has any equity interest in such Clearing Member's total capital.

Additionally, changes to OCC Rule 604 I&P .09 will establish OCC's authority to set more restrictive concentration limits than what is currently codified in OCC's Rules for letters of credit based on factors such as market conditions, the financial condition of approved issuers, and any other factors OCC determines are relevant.

If you have any questions, please contact your Clearing Member representative or the Member Services Help Desk at the following numbers: 800-621-6072 or 800-544-6091. Within Canada, please call 800-424-7320. Clearing Members may also e-mail us at memberservices@theocc.com.

If you have any questions understanding your specific results, please contact your Credit Risk Analyst. Clearing Members may also e-mail creditriskanalysts@theocc.com.