



**Date:** April 02, 2025

**Subject:** Short-Dated Option Model Enhancements

On November 22, 2024, OCC filed with the Securities and Exchange Commission (“SEC”) a proposed rule change concerning Enhancements to Its Margin and Stress Testing Methodologies to Better Capture the Risks Associated with Short-dated Options (“SDO Enhancements”) as File No. SR-OCC-2024-016. The proposal rule change was designed to improve the theoretical price simulation of Short-Dated Options (“SDO”) and enhance the modeling of the implied volatility risk associated with SDOs by: (1) aligning the day-count convention used between option price smoothing and its models for simulating implied volatility, and (2) extending the term structure to cover implied volatility risk associated with options expiring in less than one-month.

On January 15, 2025, the SEC approved the filing and as of February 4, 2025, OCC received all necessary remaining regulatory approvals to proceed with the implementation of the SDO Enhancements. The proposed rule filing is available at the following link: <https://www.sec.gov/files/rules/sro/occ/2025/34-102203.pdf>.

OCC now plans to implement and deploy the changes to production on June 1, 2025, to be reflected in OCC margins and stress testing results for settlement on the morning of Monday, June 2, 2025.

The SDO Enhancements includes two changes to model components in the System for Theoretical Analysis and Numerical Simulations (STANS), and the Comprehensive Stress Testing (CST) methodology:

- 1) **Implied Volatility Scenario Term Structure Extension:** extension of the term structure to more granularly model implied volatilities of options with less than one month to expiration (currently derived from the one-month tenor), and
- 2) **Day Count Convention Alignment:** alignment of the day count conventions used in option pricing (currently in calendar day count convention) and implied volatility simulation (currently in trading day count convention)

### **Clearing Member Testing**

OCC is planning to release the SDO Enhancements for external parallel testing by April 21, 2025. External parallel testing allows Clearing Members to assess the SDO Enhancements impact on daily

margins and Clearing Fund requirements for comparison against existing production values. The following reports will be available to Clearing Members accessible via ENCORE (Reports -> CMO/Exchange -> Collateral Reports):

- Add-on Charge Summary by CMO
- Clearing Fund Sizing Report
- Clearing Fund Sufficiency Report
- Clearing Fund Daily Requirement Projection Report
- Liquidity Sufficiency Report

In addition, the below set of reports would also be available via ENCORE (Reports -> Clearing Membership -> Margins):

- Daily Margin Reconciliation
- Daily Margin Summary
- Daily Margin Detail
- Stock Loan Memo Margin Reconciliation
- Margin Memo – Collateral Reconciliation
- Margin Memo – Coll, Stock Loan & Repo Reconciliation
- Customer Gross Margins Summary Report

Clearing Members can generate reports for business dates between April 3, 2025, and May 5, 2025, and can use the External Test - Training environment.

When accessing reports related to this parallel testing, please be sure to identify the 'DRGFR00', 'ENGFR00' or 'ST' environment tag in the lower left-hand corner of each report. Other environment tags are applicable to different testing initiatives.

### **Testing Requests**

OCC external testing requests are initiated by completing an online form with the OCC. The form is available on the OCC Website ([www.theocc.com](http://www.theocc.com)) from the 'Clearing & Services / Certification Testing Services' menus or directly from the following link:

<http://www.theocc.com/clearing/certification-testing/default.jsp>

OCC requires a minimum of a 1-week lead time for all testing requests in order to confirm system and resource availability as well as to complete any pre-test verifications. Submitted testing requests will be responded to within 2 business days of receipt.

The Technical Certification and Documentation Services group will then initiate the process of confirming any scope, timeline, and needed inputs/outputs for the test, including test connectivity and access to the training environment.

OCC encourages its membership to review the full proposal for more detailed information and contact OCC's Market Risk Group ([marketrisk@theocc.com](mailto:marketrisk@theocc.com)) and/or Stress Testing and Liquidity Risk Management Group ([stlrmgroup@theocc.com](mailto:stlrmgroup@theocc.com)) with questions.