



**THE FOUNDATION
FOR SECURE
MARKETS**

#60002

DATE: October 20, 2026

SUBJECT: Modification to OCC Price and Volatility Smoothing Algorithm

Effective Friday, November 6, 2026, OCC will implement a modification to the algorithm used to determine final option prices and implied volatilities, commonly known as the OCC “smoothing algorithm.”

Currently the smoothing algorithm includes an optimization step targeted at FLEX option contracts; however, this is no longer performing effectively and so OCC has determined to remove this step from the algorithm. Going forward, FLEX Option prices will be generated using volatilities taken directly from the listed option implied volatility surface, which is expected to improve consistency between FLEX and standard listed option contracts and improve the overall quality of final pricing output.

This change will impact all processing that utilizes final smoothed option prices, including Risk Based Haircut / Customer Portfolio Margin (“RBH/CPM”) theoretical computations, STANS margin output, and stress testing computations. It is anticipated that these changes will generally not have a material impact on clearing member margin and clearing fund requirements; firms with a material impact will be contacted directly. To support assessment of impact to end-user margin requirements, OCC will make test RBH/CPM files available to subscribers of the files prior to implementation, upon request.

For questions regarding this memo or to request RBH/CPM test files, please contact Member Services at 1-800-544-6091 or, within Canada, at 1-800-424-7320, or email memberservices@theocc.com.