



8011-01p  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78893; File No. SR-OCC-2016-803)

September 21, 2016

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Advance Notice of and No Objection to The Options Clearing Corporation's Proposal to Enter Into a New Credit Facility Agreement

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Payment, Clearing and Settlement Supervision Act")<sup>1</sup> and Rule 19b-4(n)(1)(i)<sup>2</sup> under the Securities Exchange Act of 1934 ("Act"), notice is hereby given that, on August 29, 2016, The Options Clearing Corporation ("OCC") filed an advance notice (SR-OCC-2016-803) with the Securities and Exchange Commission ("Commission"). The advance notice is described in Items I and II below, which Items have been prepared by OCC. The Commission is publishing this notice to solicit comments on the advance notice from interested persons, and to provide notice that the Commission does not object to the changes set forth in the advance notice and authorizes OCC to implement those changes earlier than 60 days after the filing of the advance notice.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This advance notice is being filed in connection with a proposed change in the form of the replacement of a revolving credit facility that OCC maintains for a 364-day

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<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

term for the purpose of meeting obligations arising out of the default or suspension of a clearing member, in anticipation of a potential default by a clearing member, or the failure of a bank or securities or commodities clearing organization to perform its obligations due to its bankruptcy, insolvency, receivership or suspension of operations.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the advance notice and discussed any comments it received on the advance notice. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections A and B below, of the most significant aspects of these statements.

A. Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the advance notice and none have been received.

B. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act

This advance notice is being filed in connection with a proposed change in the form of the replacement of a revolving credit facility that OCC maintains for a 364-day term for the purpose of meeting obligations arising out of the default or suspension of a clearing member, in anticipation of a potential default by a clearing member, or the failure of a bank or securities or commodities clearing organization to perform its obligations due to its bankruptcy, insolvency, receivership or suspension of operations. OCC's existing credit facility ("Existing Facility") was implemented on October 5, 2015 through the execution of a Credit Agreement among OCC, Bank of

America, N.A. (“BofA”), as administrative agent, and the lenders that are parties to the agreement from time to time. The Existing Facility provides short-term secured borrowings in an aggregate principal amount of \$2 billion but may be increased to \$3 billion if OCC so requests and sufficient commitments from lenders are received and accepted. To obtain a loan under the Existing Facility, OCC must pledge as collateral U.S. dollars or certain securities issued or guaranteed by the U.S. Government or the Government of Canada. Certain mandatory prepayments or deposits of additional collateral are required depending on changes in the collateral’s market value. In connection with OCC’s past implementation of the Existing Facility, OCC filed an advance notice with the Commission on September 9, 2015 [sic], and the Commission published a Notice of No-Objection on October 1, 2015.<sup>3</sup>

The Existing Facility is set to expire on October 3, 2016, and OCC is therefore currently negotiating the terms of a new credit facility (“New Facility”) on substantially similar terms as the Existing Facility.

The terms and conditions applicable to the New Facility are set forth in the Summary of Terms and Conditions, which is not a public document.<sup>4</sup> OCC has separately submitted a request for confidential treatment to the Commission regarding the Summary of Terms and Conditions, which is included in this filing as Exhibit 3. The conditions regarding the availability of the New Facility, which OCC anticipates will be

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<sup>3</sup> See Securities Exchange Act Release No. 76062 (October 1, 2015), 80 FR 64028 (October 22, 2015) (SR-OCC-2015-803).

<sup>4</sup> The Summary of Terms and Conditions for the New Facility clarifies certain terms regarding mandatory prepayments or deposits of additional collateral, which, as described above, are also features of the Existing Facility.

satisfied on or before October 3, 2016, include the execution and delivery of (i) a credit agreement between OCC and the administrative agent, collateral agent and various lenders under the New Facility, (ii) a pledge agreement between OCC and the administrative agent or collateral agent, and (iii) such other documents as may be required by the parties. The definitive documentation concerning the New Facility is expected to be consistent with the Summary of Terms and Conditions and substantially similar to that concerning the Existing Facility, although it may include certain changes as may be necessary regarding administrative and operational terms being finalized between the parties. Language will be added to the credit agreement in order to permit European Economic Area (“EEA”)-based lenders under the New Facility to comply with new “bail-in” requirements under European law. Specifically, OCC would agree in the credit agreement that, liabilities of lenders that are classified as “EEA Financial Institutions” under the relevant law are subject to potential write-down or conversion into equity by EEA regulators.<sup>5</sup>

The New Facility involves a variety of customary fees payable by OCC, including: (1) an arrangement fee payable to the joint lead arrangers; (2) administrative and collateral agent fees payable to the administrative agent and collateral agent if the

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<sup>5</sup> EU Directive 2014/59, often referred to as the Bank Resolution and Recovery Directive, contains wide-ranging recovery and resolution powers for EEA regulators to facilitate the rescue of a failing EEA financial institution. These powers include the ability for an EEA regulator to write-down and/or convert into equity a failing institution's liabilities. Article 55 of the Directive requires EEA financial institutions to include in certain documents, such as credit agreements, governed by the law of a non-EEA country an acknowledgment that obligations of the EEA financial institutions are subject to the exercise of write-down and conversion powers.

New Facility closes; (3) upfront commitment fees payable to the lenders based on the amount of their commitments; and (4) an ongoing quarterly commitment fee based on the unused amount of the New Facility.

***Anticipated Effect on and Management of Risk***

Completing timely settlement is a key aspect of OCC's role as a clearing agency performing central counterparty services. Overall, the New Facility would continue to promote the reduction of risks to OCC, its clearing members and the options market in general because it would allow OCC to obtain short-term funds to address liquidity demands arising out of the default or suspension of a clearing member, in anticipation of a potential default or suspension of clearing members or the insolvency of a bank or another securities or commodities clearing organization. The existence of the New Facility would therefore help OCC minimize losses in the event of such a default, suspension or insolvency, by allowing it to obtain funds on extremely short notice to ensure clearance and settlement of transactions in options and other contracts without interruption. OCC believes that the reduced settlement risk presented by OCC resulting from the New Facility would correspondingly reduce systemic risk and promote the safety and soundness of the clearing system. By drawing on the New Facility, OCC would also be able to avoid liquidating margin or clearing fund assets in what would likely be volatile market conditions, which would preserve funds available to cover any losses resulting from the failure of a clearing member, bank or other clearing organization. Because the New Facility generally preserves the same terms and conditions as the Existing Facility, OCC believes that the change would not otherwise affect or alter the management of risk at OCC. Moreover, and [sic] while the credit

agreement for the New Facility would contain the “bail-in” acknowledgment discussed above, OCC has existing processes in place to monitor the financial health of lenders under the Existing and New Facilities, including European-based lenders under the New Facility. In the event that a lender were experiencing [sic] financial difficulties that triggered a bail-in risk, OCC could exercise its right to seek a replacement lender.

***Consistency with the Payment, Clearing and Settlement Supervision Act***

OCC believes that the New Facility is consistent with Section 805(b)(1) of the Payment Clearing and Settlement Supervision Act<sup>6</sup> because it promotes robust risk management by OCC of settlement and liquidity risk. The New Facility would promote robust risk management of these risks by providing OCC with timely access to a stable and reliable liquidity funding source to help it complete timely clearing and settlement.

***Accelerated Commission Action Requested***

Pursuant to Section 806(e)(1)(I) of the Payment, Clearing and Settlement Supervision Act,<sup>7</sup> OCC requests that the Commission notify OCC that it has no objection to the New Facility not later than Wednesday, September 28, 2016, which is three business days prior to the October 3, 2016 expiration date of the Existing Facility. OCC requests Commission action three business days in advance of the effective date in order to ensure that there is no period of time that OCC operates without this essential liquidity resource, given its importance to OCC’s borrowing capacity in connection with its management of liquidity and settlement risk and timely completion of clearance and settlement.

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<sup>6</sup> 12 U.S.C. 5464(b)(1).

<sup>7</sup> 12 U.S.C. 5465(e)(1)(I).

### III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. OCC shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the OCC with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies OCC in writing that it does not object to the proposed change and authorizes OCC to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

OCC shall post notice on its website of proposed changes that are implemented.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Comments may be submitted by any of the following methods:

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2016-803 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2016-803. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the advance notice that are filed with the Commission, and all written communications relating to the advance notice between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of OCC and on OCC's website

([http://www.theocc.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_16\\_803.pdf](http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_16_803.pdf)).

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number

SR-OCC-2016-803 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Commission’s Findings and Notice of No Objection

Although the Payment, Clearing and Settlement Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive.<sup>8</sup> The stated purpose is to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities (“FMUs”) and strengthening the liquidity of systemically important FMUs.<sup>9</sup> Section 805(a)(2) of the Payment, Clearing and Settlement Supervision Act<sup>10</sup> authorizes the Commission to prescribe risk management standards for the payment, clearing, and settlement activities of designated clearing entities and financial institutions engaged in designated activities for which it is the Supervisory Agency or the appropriate financial regulator. Section 805(b) of the Payment, Clearing and Settlement Supervision Act<sup>11</sup> states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to:

- promote robust risk management;
- promote safety and soundness;
- reduce systemic risks; and

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<sup>8</sup> See 12 U.S.C. 5461(b).

<sup>9</sup> *Id.*

<sup>10</sup> 12 U.S.C. 5464(a)(2).

<sup>11</sup> 12 U.S.C. 5464(b).

- support the stability of the broader financial system.

The Commission has adopted risk management standards under Section 805(a)(2) of the Payment, Clearing and Settlement Supervision Act<sup>12</sup> and the Act (“Clearing Agency Standards”).<sup>13</sup> The Clearing Agency Standards require registered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>14</sup> Therefore, it is appropriate for the Commission to review advance notices against these Clearing Agency Standards and the objectives and principles of these risk management standards as described in Section 805(b) of the Payment, Clearing and Settlement Supervision Act.<sup>15</sup>

The Commission believes that the proposal in the advance notice is consistent with the Clearing Agency Standards, in particular, Rule 17Ad-22(d)(11) under the Act and Rule 17Ad-22(b)(3) under the Act.<sup>16</sup> Rule 17Ad-22(d)(11) under the Act<sup>17</sup> requires that registered clearing agencies “establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable . . . establish default

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<sup>12</sup> 12 U.S.C. 5464(a)(2).

<sup>13</sup> See Exchange Act Rule 17Ad-22. 17 CFR 240.17Ad-22. Securities Exchange Act Release No. 68080 (October 22, 2012), 77 FR 66220 (November 2, 2012) (S7-08-11).

<sup>14</sup> *Id.*

<sup>15</sup> 12 U.S.C. 5464(b).

<sup>16</sup> 17 CFR 240.17Ad-22(d)(11) and 17 CFR 240.17Ad-22(b)(3), respectively.

<sup>17</sup> 17 CFR 240.17Ad-22(d)(11).

procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default.” The Commission believes that the proposal is consistent with Rule 17Ad-22(d)(11) under the Act<sup>18</sup> because the New Facility will allow OCC to obtain short-term funds to address liquidity demands arising out of the default or suspension of a clearing member, in anticipation of a potential default or suspension of clearing members or the insolvency of a bank or another securities or commodities clearing organization. Therefore, the New Facility should help OCC minimize losses in the event of such a default, suspension or insolvency, by allowing it to obtain funds on extremely short notice to ensure clearance and settlement of transactions in options and other contracts without interruption.

Rule 17Ad-22(b)(3) under the Act<sup>19</sup> requires a central counterparty to “establish, implement, maintain and enforce written policies and procedures reasonably designed to . . . [m]aintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions . . . .” The Commission believes that the proposal is consistent with Rule 17Ad-22(b)(3) under the Act<sup>20</sup> because OCC’s proposal to enter into the New Facility, thereby ensuring continued access to a committed bank syndicated credit facility, will help OCC maintain sufficient financial resources to withstand, at a minimum, a default by an clearing member family to which it has the largest exposure.

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<sup>18</sup> *Id.*

<sup>19</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>20</sup> *Id.*

For these reasons, the Commission believes the proposal contained in the advance notice is consistent with the objectives and principles described in Section 805(b) of the Payment, Clearing and Settlement Supervision Act,<sup>21</sup> including that it reduces systemic risks and promote the safety and soundness of the broader financial system. As discussed above, the New Facility will continue to promote the reduction of risks to OCC, its clearing members, and the options market in general because it will allow OCC to obtain short-term funds to address liquidity demands, which should ensure clearance and settlement of transactions in options and other contracts without interruption. Given that OCC has been designated as a systemically important FMU, its ability to access financial resources to address short-term liquidity demands contributes to reducing systemic risks and supporting the stability of the broader financial system.

For these reasons, stated above, the Commission does not object to the advance notice.

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<sup>21</sup> 12 U.S.C. 5464(b).

VI. Conclusion

IT IS THEREFORE NOTICED, pursuant to Section 806(e)(1)(I) of the Payment, Clearing and Settlement Supervision Act,<sup>22</sup> that the Commission DOES NOT OBJECT to the proposed change, and authorizes OCC to implement the change in the advance notice (SR-OCC-2016-803) as of the date of this notice.

By the Commission.

Robert W. Errett  
Deputy Secretary

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<sup>22</sup> 12 U.S.C. 5465(e)(1)(I).

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