By the Commission.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–96533; File No. SR–OCC–2022–012)]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change by The Options Clearing Corporation Concerning Collateral Haircuts and Standards for Clearing Banks and Letters of Credit

December 19, 2022.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Exchange Act'' or ''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on December 5, 2022, The Options Clearing Corporation (''OCC'' or ''Corporation'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

This proposed rule change would concern proposed changes to OCC's Rules, Collateral Risk Management Policy (''CRM Policy''), Margin Policy, and System for Theoretical Analysis and Numerical Simulation (STANS) Methodology Description (''STANS Methodology Description''). The proposed changes are designed to (i) provide that OCC will value Government securities and GSE debt securities deposited as margin or Clearing Fund collateral using a fixed haircut schedule that OCC would set and adjust pursuant to OCC's CRM Policy, rather than as codified in OCC's Rules as the schedule is today; (ii) adopt new OCC Rules concerning minimum standards for OCC's Clearing Bank relationships; and (iii) revise certain OCC Rules regarding the acceptability of letters of credit as margin assets.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. 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), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

As the sole clearing agency for standardized equity options listed on a national securities exchange registered with the Commission (''listed options''), OCC is exposed to certain risks, including credit risk arising from its relationships with (i) the Clearing Members for which OCC becomes the buyer to every seller and the seller to ever buyer with respect to listed options, and (ii) other financial institutions such as banks, including the settlement banks (''Clearing Banks'') that support OCC's clearance and settlement services. OCC manages these risks through financial safeguards that include rigorous admission standards, member surveillance activities, collection of high-quality margin collateral and a mutualized Clearing Fund. OCC also maintains standards for third-party relationships, including for Clearing Banks and banks that issue letters of credit that Clearing Members may deposit as margin collateral. One aspect of OCC's processes for managing margin collateral is to acknowledge that such collateral could be worth less in the future than when it is pledged to OCC (a ''collateral haircut'').

OCC has identified opportunities to enhance its rules and risk management processes concerning collateral haircuts and concentration limits for specific collateral types and third-party standards for banks. First, OCC is proposing to eliminate existing authority to value Government securities using Monte Carlo simulations as part of its STANS margin methodology (commonly referred to as ''Collateral in Margin'' or ''CiM'') in favor of applying fixed collateral haircuts that OCC would set and adjust pursuant to OCC's CRM Policy in order to better incorporate stressed market periods (the ''procedure-based approach''), rather than according to the fixed haircut schedule codified in OCC's Rules today. OCC does not expect these changes to have a significant impact on Clearing Members based on an impact assessment of eliminating the CiM approach and because it expects the fixed haircut schedule under the procedure-based approach would initially be the same as those currently defined in OCC's Rules. Second, OCC is proposing to codify additional standards for Clearing Banks in OCC's Rules to provide greater clarity and transparency regarding minimum standards for banking relationships that are critical to OCC's clearance and settlement services. Third, OCC is proposing to make conforming changes to the standards for letter-of-credit issuers to the proposed Clearing Bank standards to ensure internal consistency within OCC's Rules and establish OCC's authority to set more restrictive concentration limits for letters of credit than those currently codified in OCC's Rules. These standard changes are not expected to have a significant impact on Clearing Members because the institutions currently approved as Clearing Banks and letter-of-credit issuers meet these standards.

(1) Purpose

There are three primary components of this proposed rule change. First, OCC proposes to amend its Rules, CRM Policy, Margin Policy, and STANS Methodology Description to eliminate existing authority to value Government securities using Monte Carlo simulations as part of its STANS margin methodology in favor of applying fixed collateral haircuts that OCC would set and adjust pursuant to OCC's CRM Policy, rather than according to the fixed haircut schedule codified in OCC's Rules today. Second, OCC proposes to amend OCC Rules 101 and 203 to codify minimum capital and operational requirements and the governance process for approving OCC's Clearing Banks, which the Rules do not currently address. Third, OCC proposes to revise OCC Rule 604 regarding the acceptability of letters of credit as margin assets to, among other things, standardize requirements for letter-of-credit issuers with the requirements for OCC's other banking relationships, including the proposed standards for Clearing Banks, and allow OCC to set concentration limits with respect to letters of credit that are more restrictive than those currently codified in OCC's Rules, which would be retained as minimum standards.

Haircuts for Government Securities and GSE Debt Securities

OCC accepts Government securities [3] from Clearing Members as contributions to the Clearing Fund.[4] OCC also accepts Government securities and GSE debt securities [5] from Clearing Members as margin assets.[6] The collateral valuation haircuts for Government securities and GSE debt securities that a Clearing Member may deposit as margin collateral are specified in OCC Rule 604(b). The collateral valuation haircuts for Government securities that a Clearing Member contributes to the Clearing Fund are specified in OCC Rule 1002(a)(ii). As discussed below, OCC proposes several changes regarding this structure, including to: (a) eliminate the use of OCC's STANS margin methodology to value Government securities in favor of applying fixed collateral haircuts; (b) remove the fixed collateral haircut schedule for Government securities and GSE debt securities from OCC's Rulebook; (c) amend the CRM Policy to establish a procedures-based approach for setting the haircut schedule; [7] (d) conform OCC's Rules with respect to valuation of such securities to the CRM Policy, which allows OCC to revalue collateral on a more frequent basis than daily; and (e) make other conforming changes to OCC's policies.

a. Removing Collateral in Margin Treatment

First, OCC would remove the Rules concerning the valuation of Government securities and GSE debt securities through OCC's STANS margin methodology. OCC currently has authority pursuant to Interpretation and Policy (''I&P'') .06 to OCC Rule 601 and OCC Rule 604(f) to determine the collateral value of any Government securities or GSE debt securities that are pledged by Clearing Members as margin assets either by: (1) the CiM method of including them in Monte Carlo simulations as part of OCC's STANS margin methodology,[8] or (2) by applying the fixed haircuts that are specified in OCC Rule 604(b). OCC's model validation analyses and regulatory examination findings have identified certain weaknesses related to its current CiM methodology for valuing Government securities and GSE debt securities, including that the current CiM methodology may not adequately consider relevant stressed market conditions for such collateral.[9] Accordingly, OCC is proposing to eliminate I&P .06 to OCC Rule 601 and OCC Rule 604(f), thereby removing CiM treatment for Government securities. Instead, all Government securities pledged by Clearing Members as margin assets would be subject to a fixed haircut schedule that OCC would set in accordance with the CRM Policy, as discussed below.

In general, the fixed haircut approach would be less procyclical. While it may be more conservative in periods of low market volatility, it would prevent spikes in margin requirements during periods of heightened volatility that may take place under the existing CiM approach. Upon implementation of the proposed change, Government security deposits currently valued using STANS would shift from margin balances to collateral balances and would be valued using the fixed haircuts schedule as described under the proposed OCC Rule 604(e) and amendments to the CRM Policy, as discussed below.[10] OCC's preliminary analysis shows the average impact as a percentage of the value of Government securities and GSE debt securities is typically under 1 percent and that the impact to the Clearing Fund is negligible.[11] OCC intends to provide parallel reporting to its Clearing Members for a period of at least four consecutive weeks prior to implementing the change.

b. Removing the Fixed Haircut Schedule From OCC's Rules

Second, OCC would remove the fixed haircut schedules for Government securities and GSE debt securities as margin collateral under OCC Rule 604(b) and for Government securities deposited in respect of the Clearing Fund under OCC Rule 1002(a)(ii), which pre-date the Commission's adoption of the Standards for Covered Clearing Agencies.[12] Instead, OCC would establish, implement, maintain and enforce written policies and procedures reasonably designed to set appropriately conservative haircuts for such collateral. OCC believes that establishing policies and procedures that would allow OCC to set haircuts for Government securities and GSE debt securities based on changing market conditions will help to ensure that the haircuts remain appropriately conservative. The remainder of this section discusses the proposed changes to OCC's Rules. Proposed changes to the CRM Policy to establish the new procedures-based approach for the haircut schedule is discussed further below.

In place of the existing Rules providing for fixed haircut schedules, OCC proposes to introduce a new OCC Rule 604(e) [13] regarding the valuation of and haircuts for Government securities and GSE debt securities that are margin assets and make similar amendments to OCC Rule 1002(a)(ii) regarding the valuation of and haircuts for Government securities contributed to the Clearing Fund. These proposed Rules would provide that OCC generally will apply a schedule of haircuts that OCC would specify from time to time upon prior notice to Clearing Members. Under the amended CRM Policy, OCC would provide Clearing Members at least one full day's notice prior to implementing a change to the schedule and would post the haircut schedule to OCC's public website.[14]

[3] Art. I., Section 1.G.(5) of OCC's By-Laws defines the term ''Government securities'' to mean ''securities issued or guaranteed by the United States or Canadian Government, or by any other foreign government acceptable to [OCC], except Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP–STRIPS). The term 'short term Government securities' means Government securities maturing within one year. The term 'long-term Government securities' means all other Government securities.''

[4] *See* OCC Rule 1002(a).

[5] Art. I., Section 1.G.(6) of OCC's By-Laws defines the term ''GSE debt securities'' to mean ''such debt securities issued by Congressionally chartered corporations as the [OCC] Risk Committee may from time to time approve for deposit as margin.''

[6] *See* OCC Rule 604(b)(1), (2).

[7] The CRM Policy is filed with the Commission as a rule of OCC. *See, e.g.,* Exchange Act Release No. 82311 (Dec. 13, 2017), 82 FR 60252 (Dec. 19, 2017) (SR–OCC–2017–008).

[8] *See* OCC Rule 601, I&P .06; OCC Rule 604(f).

[9] OCC has included information related to these issues in confidential Exhibit 3A to SR–OCC–2022–012.

[10] Specifically, the value of CiM eligible government securities would no longer be included in margin calculations and thus would no longer be included on margin reports. The Net Asset Value (''NAV'') portion of the margin calculation would decrease by the market value of CiM eligible government security deposits (*i.e.,* the NAV credit created by these deposits will be removed from the margin calculation), slightly offset by a reduction in risk charges (*i.e.,* the Risk Charge debit balance generated by the CiM haircut on these deposits would be removed from the margin calculation). Following implementation of the proposed changes, the value of the previously CiM eligible government securities would be found in collateral reports.

[11] OCC has provided this analysis in confidential Exhibit 3B to SR–OCC–2022–012.

[12] In 2016, the SEC adopted Rule 17Ad–22(e)(5), which the SEC intended to help ensure that covered clearing agencies are resilient in times of market stress by requiring the agencies to establish written policies and procedures that, among other things, set and enforce appropriately conservative haircuts. *See* Exchange Act Release No. 78961 (Sept. 28, 2016), 81 FR 70786, 70812 (Oct. 13, 2016) (S7–03–14).

[13] Existing OCC Rule 604(e) and each subsequent paragraph of that Rule would be renumbered accordingly.

[14] The schedule of haircuts would be made available through the Operations Manual and on the OCC website, and OCC would generally issue an Information Memo whenever the schedule is modified to inform Clearing Members of the changes.

OCC would also have conditional authority to apply more conservative haircuts to Government securities and GSE debt securities. Specifically, OCC would have authority, in its discretion, to use greater haircuts or, in unusual or unforeseen circumstances, assign no value or partial value to Government securities, in each case with prior notice to Clearing Members and with prior approval by the Management Committee and/or its delegates, to the extent it deems appropriate for its protection or the protection of Clearing Members or the general public based on factors such as (i) volatility and liquidity, (ii) elevated sovereign credit risk,[15] and (iii) any other factors OCC determines are relevant. For example, OCC might reduce or assign no value to specific Government securities if there was an elevated risk that the U.S. Government would reach its statutory borrowing limit and default on payment obligations. OCC already has authority under I&P .15 to OCC Rule 604 to determine that Government securities and GSE debt securities that otherwise meet the requirements for margin collateral are nevertheless disapproved as margin collateral based on such factors.[16] The proposed amendments would allow OCC to take steps short of outright refusal to grant collateral value to a particular Government security or GSE debt security and would extend such authority to the valuation of such securities deposited in respect of the Clearing Fund. The CRM Policy, in turn, currently provides that mitigating actions with respect to elevated sovereign credit risk or country risk are approved by OCC's Management Committee or its delegate prior to implementation. OCC proposes to add that such actions will also be communicated to Clearing Members prior to implementation.

c. Establishing a Procedures-Based Approach To Setting Haircuts

Third, OCC would replace its Rules codifying the fixed haircut schedule for Government securities and GSE debt securities with a procedures-based approach to setting the fixed haircut schedule. Specifically, OCC would amend the CRM Policy to provide that its Pricing and Margins team within OCC's Financial Risk Management (''FRM'') department will monitor the adequacy of the haircuts using a Historical Value-at-Risk approach (''H-VaR'') [17] with multiple look-back periods (*e.g.,* 2-year, 5-year, and 10-year), updated at least monthly. Each look-back period would be comprised of a synthetic time series of the greatest daily negative return observed for each combination of security type and maturity bucket (*e.g.,* Government securities maturing in more than 10 years). The longest look-back period under the proposed H-VaR approach would include defined periods of market stress.[18] Accordingly, this H-VaR approach would consider stressed market conditions. The delineation of look-back periods, periods of stressed market volatility included in the longest-term look-back period, and the type and maturity buckets would be defined in procedures maintained by Pricing and Margins.[19] The CRM Policy would further provide that the fixed haircut schedule must be maintained at a level at least equal to a 99% confidence interval of the most conservative look-back period. Changes to the haircut rate would be communicated to Clearing Members at least one full day in advance and the schedule would be maintained on OCC's public website.

OCC anticipates that upon implementation of these changes, the haircuts OCC would announce would initially be identical to those already specified in OCC Rule 604(b) and OCC Rule 1002(a). However, following implementation of the new procedures-based approach, OCC plans to separate out Separate Trading of Registered Interest and Principal Securities (''STRIPS'') and Treasury Inflation Protected Securities (''TIPS'') into their own schedule, which will be more conservative for longer maturities than the current haircut rate for U.S. Government securities.

d. Valuation Frequency

Fourth, OCC Rules 604(e) and 1002(a)(ii) would replace or modify provisions concerning the valuation of Government securities currently found elsewhere in OCC's Rules. Specifically, OCC would determine the value for Government securities and GSE debt securities not less than daily based on the quoted price supplied by a price source designated by OCC. Currently, OCC Rules 604(b)(1) and (2) provide that the Risk Committee of the Board may determine from time to time the interval at which such collateral will be valued, but not less than daily. OCC Rule 1002(a)(ii) currently provides the same with respect to such collateral deposited with respect to the Clearing Fund, except that Rule 1002(a)(ii) provides that the minimum interval shall be not less than monthly. However, because frequent revaluation is critical to ensure OCC's valuations reflect the most currently available market information, OCC's CRM Policy, approved by the Risk Committee, provides that valuation shall be ''at least daily'' and that Pricing and Margins shall ''[a]t a minimum update the value of its collateral on a daily basis and in instances where that collateral is providing margin offset, pricing shall also be updated on an intraday basis.'' This language was intended so that the designation of minimum valuation intervals was not a limiting factor to more frequent valuation when warranted. Accordingly, proposed OCC Rules 604(e) and 1002(a)(ii) would provide that OCC would determine the market value of Government securities and GSE debt securities at such intervals as OCC may from time to time prescribe, but not less than daily, on the basis of the quoted price supplied by a source designated by OCC.

Conforming the Rules to the CRM Policy so that Pricing and Margins may revalue Government securities and GSE debt securities more frequently than the minimum interval would promote the ability to more quickly adjust the valuation intervals in response to changing market conditions. Under the CRM Policy, Pricing and Margins monitors haircuts daily for ''breaches''

[15] In this context, sovereign credit risk refers primarily to the risk associated with accepting a country's debt as collateral.

[16] Specifically, I&P .15 to OCC Rule 604 provides that OCC may disapprove a security as margin collateral with respect to all Clearing Members, and therefore not grant margin credit, based on factors such as (i) trading volume, (ii) number of outstanding shareholders, (iii) number of outstanding shares, (iv) volatility and liquidity and (v) any other factors OCC determines are relevant. While factors (i) through (iii) are not relevant to Government securities haircuts, OCC is proposing to enumerate sovereign credit risk as a factor in the CRM Policy for haircuts on Government securities because of the animating concern for this authority in that context. OCC is also proposing to include ''any other factors the Corporation determines are relevant'' for consistency with I&P .15 to OCC Rule 604 and because such a catch-all is designed to capture unforeseen circumstances that might not previously have been considered possible, as once was the case with respect to the possible default of the U.S. Government on its payment obligations.

[17] H-VaR is a common risk management method employed by financial services firms. *See, e.g.,* Exchange Act Release No. 67650 (Aug. 14, 2012), 77 FR 50730 (Aug. 22, 2012) (SR–CME–2012–22) (''[H-VaR] is a standard, well understood model and is easily replicable.'').

[18] Currently, OCC employs a parametric VaR approach with a Student's t distribution to monitor the adequacy of its haircuts for Government securities and GSE debt securities. However, OCC is proposing to move to an H-VaR approach because appending time series to the longest look-back period when necessary to incorporate stressed market conditions effectively ignores the normal distribution inherent in Student's t.

[19] OCC has provided anticipated changes to these internal procedures in confidential Exhibit 3C to SR–OCC–2022–012.

(*i.e.,* an erosion in value exceeding the relevant haircut) and adequacy, with any issues being promptly reported to appropriate decisionmakers at OCC. As the business unit responsible for such monitoring, OCC believes that Pricing and Margins is well positioned to make the determination about more frequent valuation intervals consistent with the directive of the CRM Policy approved by the Risk Committee. The proposed rule change would allow OCC to react more quickly to adjust haircuts or take other mitigating actions in response to breaches. Changes to OCC's Rules and the CRM Policy, including the minimum valuation interval, would remain subject to Risk Committee approval and the Risk Committee would retain oversight over OCC's risk management determinations.[20]

e. Policy Changes

To implement the changes described above, OCC also proposes to make other conforming changes to its CRM Policy, Margin Policy, and STANS Methodology Description. Under the proposed rule change, the CRM Policy would be the relevant OCC policy governing OCC's process for valuing Government securities and GSE debt securities. OCC would therefore delete from the CRM Policy those descriptions that indicate that Government securities and GSE debt securities pledged as margin assets may be valued using Monte Carlo simulations as part of OCC's STANS margin methodology. OCC would make a similar conforming change to the Margin Policy, which currently indicates that Government securities may be valued using the CiM approach. OCC also proposes to conform capitalization of terms in the CRM Policy with how those terms are defined in OCC's By-Laws.

Regarding the STANS Methodology Description, OCC proposes to delete certain portions of the document that exist to support the valuation of Government securities and GSE debt securities that are pledged as margin assets using Monte Carlo simulations. As part of the proposed rule change, OCC would remove Treasuries from the model currently used for generating yield curve distributions to form theoretical price distributions for US Government securities and for modeling Treasury rates within STANS joint distribution of risk factors. These securities would instead be valued under the CRM Policy as discussed above.[21] The STANS Methodology Description would also be revised to reflect the fact that the Liquidation Cost Add-on charge [22] would no longer be assessed to Government security collateral deposits. Based on an analysis of the average daily Liquidation Cost charge across all accounts, the Liquidation Cost charge for such collateral is currently, and is expected to remain, immaterial. As described above, OCC is proposing to incorporate stressed market periods in the H-VaR approach for setting and adjusting the haircuts for such collateral, which is comparable to the approach for incorporating stressed markets into the Liquidation Cost Add-on.

Clearing Bank Standards

OCC Rule 203 requires that every Clearing Member establish and maintain a bank account at a Clearing Bank for each account maintained by it with OCC. The only eligibility requirement for a Clearing Bank currently expressed in OCC's Rules is that the Clearing Bank be a bank or trust company that has entered into an agreement with OCC in respect of settlement of confirmed trades on behalf of Clearing Members.[23] OCC's Clearing Bank standards, including financial and operational capability requirements and the governance process for approving Clearing Banks, are currently maintained in internal OCC procedures. Those procedures align standards for Clearing Banks with those codified in I&P .01 to OCC Rule 604 with respect to banks or trust companies that OCC may approve to issue letters of credit as margin collateral, including, among other things, a Tier 1 Capital requirement of $100 million for U.S. banks and $200 million for non-U.S. banks.[24] Due to the critical role Clearing Banks play in OCC's clearance and settlement of options, OCC proposes to amend its By-Laws and Rules to codify minimum requirements for Clearing Banks in a new Rule 203(b). OCC believes that amending its By-Laws and Rules to reflect these requirements will provide Clearing Members and other market participants greater clarity and transparency concerning OCC's Clearing Bank relationships.

Currently, OCC's By-Laws and Rules are silent on the internal governance process for approving Clearing Bank relationships. Proposed OCC Rule 203(b) would provide that the Risk Committee may approve a bank or trust company as a Clearing Bank if it meets the minimum requirements set out in that paragraph. In addition, OCC would amend the definition of ''Clearing Bank'' in OCC Rule 101 to reflect that such Clearing Bank relationships are approved by the Risk Committee. OCC believes that the Risk Committee is the appropriate governing body to approve such relationships because of the nature of the risks presented by OCC's Clearing Bank relationships, including the risk that OCC would need to borrow from or satisfy a loss using Clearing Fund assets in order to meet its liquidity needs as a result of the failure of a Clearing Bank to achieve daily settlement.[25]

Proposed OCC Rule 203(b)(1) would provide that any Clearing Bank, whether domiciled in the U.S. or outside the U.S., maintain at least $500 million (U.S.) in Tier 1 Capital.[26] This requirement represents an increase to the current Tier 1 Capital requirement for letter-of-credit issuers in I&P .01 to OCC Rule 604. OCC believes that increasing the required Tier 1 Capital standard for any bank or trust company would reduce the risks associated with establishing and maintaining a Clearing Bank relationship with an institution with lesser Tier 1 Capital. In reviewing its existing Clearing Banks, OCC found that a $500 million (U.S.) Tier 1 Capital standard was more representative of these institutions.

In addition, proposed OCC Rule 203(b)(2) and (4) would codify certain requirements currently maintained in OCC's procedures that Clearing Banks maintain (i) common equity tier 1 capital (CET1) of 4.5%, (ii) minimum Tier 1 capital of 6%, and (iii) total risk-based capital of 8% and a Liquidity Coverage Ratio of at least 100%, unless the Clearing Bank is not required to compute such ratio. Additionally, proposed OCC Rule 203(b)(3) would provide that non-U.S. Clearing Banks must be domiciled in a country that has a sovereign rating considered to be ''low

[20] *See* Exchange Act Release No. 94988 (May 26, 2022), 87 FR 33535, 33536, n.19 (Jun. 2, 2022) (SR–OCC–2022–002) (discussing the proposed governance process for amending OCC's risk management policies, among other governance arrangements).

[21] OCC notes that it would ultimately decommission the model currently used for generating yield curve distributions to form theoretical price distributions for US Government securities and modeling Treasury rates within STANS's joint distribution of risk factors.

[22] The STANS methodology includes a model to estimate the liquidation cost for all options and futures, as well as cash instruments that are part of margin collateral. *See* Securities Exchange Act Release No. 86119 (June 17, 2019), 84 FR 29267 (June 21, 2019) (SR–OCC–2019–004).

[23] *See* OCC Rule 101.C.(1).

[24] *See* OCC Rule 604, I&P .01.

[25] *See* OCC Rule 1006(c), (f).

[26] As defined in proposed Rule 203(c), ''Tier 1 Capital'' would mean the amount reported by a bank or trust company to its regulatory authority. The same would be true for the other capital measures and ratios identified in Rule 203(b) (*i.e.,* ''Common Equity Tier 1 Capital (CET1),'' ''total risk-based capital,'' and ''Liquidity Coverage Ratio'').

credit risk'' (*e.g.,* A- by Standard & Poor's, A3 by Moody's, A- by Fitch, or equivalent). OCC believes that these ratings better reflect current understanding of those sovereign credit ratings considered to be ''low credit risk'' than the AAA ratings currently required of non-U.S. letter-of-credit issuers under I&P .01 to OCC Rule 604, which OCC believes is now too conservative. The current AAA rating requirement effectively limits non-U.S. eligible issuers to those domiciled in Canada and Australia. The proposed change would, for example, allow for issuers from France with which OCC previously had relationships before France's sovereign credit rating fell below AAA.

Proposed OCC Rule 203(b)(5) would codify certain minimum requirements currently maintained in OCC's procedures associated with the agreements that a Clearing Bank must execute with OCC, including that the Clearing Bank: (A) maintain the ability to utilize the Society for Worldwide Interbank Financial Telecommunication (''SWIFT'') as the primary messaging protocol, (B) maintain access to the Federal Reserve Bank's Fedwire Funds Service, and (C) provide its quarterly and annual financial statements to OCC and promptly notify OCC of material changes to its operations, financial condition, and ownership.[27] However, consistent with OCC's current internal procedures and practices, proposed OCC Rule 203(b)(5)(A) would also allow for the use of such other messaging protocol, apart from SWIFT, as approved by the Risk Committee. For example, the Risk Committee may elect to temporarily accommodate a Clearing Bank that does not meet these requirements if it is actively implementing such capabilities.

The Clearing Bank requirements set forth in proposed OCC Rule 203(b) would be the minimum standards for the Risk Committee to approve a Clearing Bank relationship. Accordingly, proposed OCC Rule 203(b)(6) would provide that in addition to the articulated minimum standards, a Clearing Bank must meet such other eligibility criteria as OCC may determine from time to time. This provision reflects that even under OCC's current Rules, OCC is not obligated to enter into a Clearing Bank relationship merely because a bank or trust company meets OCC's minimum standards.

Letter-of-Credit Issuer Standards and Concentration Limits

OCC intends that proposed OCC Rule 203(b) generally would serve as the minimum requirements for all OCC's bank relationships, including with respect to banks and trust companies authorized to issue letters of credit. Accordingly, OCC proposes to make conforming changes to OCC Rule 604, which governs the treatment of letters of credit as margin collateral. In addition, OCC would make other amendments to OCC Rule 604 intended to allow OCC to control exposures by imposing more stringent concentration limits and eliminating wrong-way risk.

a. Letter-of-Credit Issuer Standards

I&P .01 to OCC Rule 604 currently sets forth minimum standards for the types of U.S. and non-U.S. institutions that OCC may approve as an issuer of letters of credit, including minimum Tier 1 Capital requirements, and for non-U.S. institutions, the ultimate sovereign credit rating for the country of domicile for non-U.S. institutions, credit ratings for the institution's commercial paper or other short-term obligations, and standards that apply if there is no credit rating on the institution's commercial paper or other short-term obligations. OCC proposes the following amendments to I&P .01:

- OCC would combine under paragraph (a) the current standards for the types of institutions that OCC may approve. In addition, the capitalized terms ''U.S. Institutions'' and ''Non-U.S. Institutions'' would be deleted because those are not defined terms. In any event, the terms would not be necessary as courtesy titles now that the standards are combined under the same paragraph. OCC would also modify the capitalization of certain terms to conform to how those terms appear in the International Bank Act of 1978,[28] to which the Rule refers, and would note that the meaning of those terms would apply generally throughout the Rules, including use of those terms in I&P .03 to OCC Rule 604 (as amended).
- OCC would delete the current Tier 1 Capital requirements. Instead, paragraph (b) would incorporate the new minimum Tier 1 Capital requirement for Clearing Banks under OCC Rule 203(b)(1), which would be the same for both U.S. and non-U.S. issuers. New paragraph (b) would also incorporate the minimum capital ratio requirements in OCC Rule 203(b)(2), which would align standards across OCC's banking relationships. As discussed above, the minimum Tier 1 Capital requirement would be greater than those presently found in I&P .01 to OCC Rule 604. However, as with Clearing Banks, OCC believes that increasing the required Tier 1 Capital standard for any bank or trust company would reduce the risks associated with letters of credit that may be issued by institutions with lesser Tier 1 Capital. In addition, the $500 million (U.S.) Tier 1 Capital standard is more representative of the institutions currently approved as letter-of-credit issuers.
- New paragraph (b) would also replace the domicile sovereign credit ratings for non-U.S. institutions by incorporating the minimum for Clearing Banks in OCC Rule 203(b)(3). As noted above, the current standards in I&P .01(b)(3) to OCC Rule 604 are considered too conservative; the new minimum standards better align with those considered to be low risk. By eliminating I&P .01(b)(3), OCC would also remove the subjective process for determining a ''AAA'' equivalent country based on consultation with entities experienced in international banking and finance matters satisfactory to the Risk Committee, in favor of the more objective standards in proposed OCC Rule 203(b)(3).
- OCC would delete the external credit rating standards for a non-U.S. institution's commercial paper, other short-term obligations or long-term obligations in current I&P .01(b)(4). OCC has had to terminate several letter-of-credit issuer relationships pursuant to these external credit rating standards even though the institutions otherwise met OCC's requirements and were not reporting elevated internal credit risk metrics. Consistent with industry best practice, OCC would instead rely on its Watch Level and Internal Credit Rating surveillance processes under its Third-Party Risk Management Framework (''TPRMF'') to determine creditworthiness of institutions.[29]
- Proposed paragraph (c) would provide that an institution must meet such other standards as OCC may determine from time to time. Like proposed OCC Rule 203(b), I&P .01 to OCC Rule 604 would specify the minimum standards for issuers of letters of credit. Under OCC's current Rules, OCC ''may in its discretion approve a bank or trust company'' as a letter-of-credit issuer if the issuer meets the

[27] *See* Securities Exchange Act Release No. 82221 (Dec. 5, 2017), 82 FR 58230 (Dec. 11, 2017) (SR–OCC–2017–805) (advance notice concerning execution of agreements with Clearing Banks that would provide for a transition to SWIFT messaging as the primary messaging protocol for OCC's then-existing Clearing Bank relationships).

[28] *See* 12 U.S.C. 3101(5)–(6), (11)–(12).

[29] The TPRMF is filed with the Commission as a rule of OCC. *See* Securities Exchange Act Release No. 90797 (Dec. 23, 2020), 85 FR 86592 (Dec. 30, 2020) (SR–OCC–2020–014). The TPRMF can also be found on OCC's public website.

minimum standards. OCC is not obligated to accept a letter-of-credit issuer simply because an issuer meets the minimum standards. Accordingly, proposed paragraph (c) would clarify that articulation of these minimum standards would not limit OCC's discretion to approve or disapprove an institution based on other factors, including based on OCC's Watch Level and Internal Credit Rating surveillance, as discussed above.

In addition to the above changes, OCC also proposes to amend I&P .03 and .09 concerning the domicile of the issuer's branch at which letters of credit must be issued. I&P .03 to OCC Rule 604 requires any letter of credit issued by a Non-U.S. institution be payable at a Federal or State branch or agency thereof. In addition, I&P .09 to OCC Rule 604 provides that a letter of credit may be issued by a Non-U.S. branch of a U.S. institution provided that it otherwise conforms with Rule 604 and the Interpretations and Policies thereunder and is payable at a U.S. office of such institution. OCC is proposing to delete the current text of I&P .09. Instead, I&P .03 would be amended so that letters of credit used as margin assets would be required to be payable at an issuer's ''domestic branch,'' as that term is defined in the Federal Deposit Insurance Act,[30] or at the issuer's Federal or State branch or agency, as those terms are defined in I&P .01 by reference to the International Banking Act of 1978.[31] As amended, I&P .03 would address both U.S. and Non-U.S. institutions.

b. Letter-of-Credit Concentration Limits

The proposed changes would also establish OCC's authority to establish more restrictive concentration limits for letters of credit than those currently codified in OCC's Rules and eliminate wrong-way risk.[32] OCC Rules currently codify certain concentration limits for letters of credit. I&P .02 to OCC Rule 604 provides that ''[n]o more than 50% of a Clearing Member's margin on deposit at any given time may include letters of credit in the aggregate, and no more than 20% may include letters of credit issued by any one institution.'' In addition, I&P .04 to OCC Rule 604 limits the total amount of letters of credit issued for the account of any one Clearing Member by a U.S. or Non-U.S. institution to a maximum of 15% of such institution's Tier 1 Capital. While OCC proposes to retain these concentration limits as minimum standards, OCC is proposing to establish authority to set more conservative concentration limits under the CRM Policy, consistent with OCC's regulatory obligation to establish, implement, maintain and enforce written policies and procedures reasonably designed to, among other things, set and enforce appropriately conservative concentration limits.

In order to establish such authority, OCC proposes to amend I&P .09—the current content of which would be deleted as part of the changes to I&P .03 and .09 discussed above—to provide that OCC may from time to time specify more restrictive limits for the amount of letters of credit a Clearing Member may deposit in the aggregate or from any one institution than those specified in the Rules based on factors such as market conditions, the financial condition of approved issuers, and any other factors the Corporation determines are relevant. The Rule would also provide that any such limit would be applicable to all Clearing Members. In this way, the Rule would provide OCC similar authority to disapprove letters of credit based on risk-based criteria as OCC has to disapprove specific securities as margin collateral under current I&P .15 to OCC Rule 604.

Under proposed changes to the CRM Policy, OCC's Credit and Liquidity Risk Working Group (''CLRWG''), a cross-functional group comprised of representatives from relevant OCC business units including Pricing and Margins, Collateral Services and Credit Risk Management, would be responsible for setting and adjusting more restrictive concentration limits. Similar to collateral haircuts, the CRM Policy would provide that OCC will maintain the concentration limits on its website and will provide prior notice of any changes to the limits. As under the current CRM Policy, the CLRWG would review the performance and adequacy of the CRM Policy on at least an annual basis, including but not limited to a review of concentration limits. OCC's Model Risk Management would also continue to review the concentration limits on at least an annual basis. Any changes to the CRM Policy would continue to be presented to the Management Committee and, if approved, then the Risk Committee.

Among other things, OCC anticipates that it would use the proposed authority to establish an absolute dollar limit for letters of credit, which would be more restrictive than the current percentage thresholds for OCC Clearing Members with larger margin requirements. In addition, OCC expects to specify more stringent limits on the amount of letters of credit a Clearing Member may maintain from a single issuer—not to exceed 5% of the issuing institution's Tier 1 Capital. OCC believes that lowering this limit will reduce the risks associated with having too great of a proportion of an institution's Tier 1 Capital in letters of credit for any one Clearing Member Organization. These changes are not expected to have any impact on Clearing Members because use of letters of credit as margin collateral is currently low. While utilization is low, OCC continues to support letters of credit based on their acceptability as collateral under Commodity Futures Trading Commission (''CFTC'') regulations.[33]

Finally, OCC would also make changes to the letter-of-credit concentration limits articulated in the Rules to eliminate wrong-way risk. I&P .08 to OCC Rule 604 provides that 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. The proposed rule change would tighten this requirement to prohibit acceptance of a letter of credit for the account of a Clearing Member in which the issuing institution, a parent, or an affiliate has any equity interest in such Clearing Member's total capital. Although the current rule seeks to limit the amount of wrong-way risk in these types of affiliated relationships, OCC believes this proposed change should eliminate wrong-way risk associated with allowing the issuing institution of a letter of credit to have an equity interest in the Clearing Member's total capital.

Implementation Timeframe

As discussed above, OCC intends to provide parallel reporting to its Clearing Members for a period of at least four consecutive weeks prior to implementing the change. If this parallel reporting does not commence at least four weeks prior to the date OCC obtains all necessary regulatory approvals for the proposed change, OCC will announce the implementation date of the proposed change by an Information Memorandum posted to its public website at least two (2) weeks prior to implementation.

(2) Statutory Basis

For the following reasons, OCC believes that the proposed rule change

[30] *See* 12 U.S.C. 1813(o).

[31] *See* 12 U.S.C. 3101(5)–(6), (11)–(12).

[32] Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

[33] *See* 17 CFR 39.13(g)(10).

is consistent with section 17A(b)(3)(F) of the Act [34] and Rule 17Ad–22(e)(5),[35] Rule 17Ad–22(e)(9),[36] Rule 17Ad–22(e)(22),[37] and Rule 17Ad–22(e)(23) [38] thereunder.

Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act [39] requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and, in general, to protect investors and the public interest. As discussed above, there are three primary components of this proposed rule change. First, the proposed rule change would transition away from the current CiM approach to valuing Government securities and GSE debt securities deposited as collateral in favor of applying fixed collateral haircuts that OCC would set and adjust pursuant to OCC's CRM Policy, which would allow OCC to more quickly respond to changing market conditions than possible when the fixed haircut schedule is codified in OCC's Rules, as it is today. Second, the proposed rule change would codify standards designed to ensure that OCC's Clearing Banks are adequately capitalized and meet certain minimum operational capability requirements. Third, the proposed rule change would improve OCC's credit and collateral risk management processes by aligning the standards for issuers of letters of credit with the new Clearing Bank standards and applying other changes intended to allow OCC to control exposures by imposing more stringent concentration limits and eliminating wrong-way risks.

Taken together, these changes would help ensure that OCC requires Clearing Members to maintain sufficient collateral, in form and amount, and maintain adequate Clearing Bank arrangements to facilitate the prompt and accurate clearance and settlement of securities transactions in the markets served by OCC. OCC would use the margin it has collected from a defaulting Clearing Member to protect other Clearing Members and their customers from default losses and ensure that OCC can continue the prompt and accurate clearance and settlement of its cleared products. In addition, maintaining adequate Clearing Bank arrangements helps protect Clearing Members and their customers from losses or liquidity shortfalls that might result from a Clearing Bank's failure.[40] For these reasons, the proposed changes to OCC's rules are reasonably designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds in OCC's custody or control, and, in general, to protect investors and the public interest in accordance with section 17A(b)(3)(F) of the Act.[41]

Rule 17Ad–22(e)(5)

Rule 17Ad–22(e)(5) [42] under the Act requires a covered clearing agency in relevant part to establish, implement, maintain and enforce written policies and procedures reasonably designed to limit the assets it accepts as collateral to those with low credit, liquidity and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposures. In addition, Rule 17Ad–22(e)(5) requires a covered clearing agency to review the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually. OCC requires collateral to manage credit exposures between OCC and its Clearing Members, and OCC believes that the proposed rule change furthers these requirements in the following ways.

First, the proposed changes would remove Government securities and GSE debt securities deposited as margin from the CiM valuation approach under OCC's STANS margin methodology in favor of a procedures-based approach for valuing such collateral and determining haircuts under OCC's CRM Policy. OCC has identified certain weaknesses related to its current model for valuing Government securities as part of OCC's STANS margin methodology, including that the current CiM method may not adequately consider relevant stressed market conditions. OCC would address these weaknesses by setting a fixed haircut schedule in accordance with proposed changes to its CRM Policy, as opposed to the current schedule codified in OCC's Rules. Specifically, the CRM Policy would adopt an H-VaR approach to monitoring the continued adequacy of haircuts for Government Securities and GSE debt securities, which is a well understood financial services risk management method that OCC would utilize to incorporate periods of market stress into its analysis. The proposed change would require OCC to maintain its haircut levels for such collateral at a level at least equal to a 99% confidence interval of the most conservative look-back period under this H-VaR approach. OCC believes the proposed approach would result in more conservative collateral requirements for those Government securities currently valued using STANS and would have a minimal impact on the Clearing Fund. This procedures-based approach would involve review of the sufficiency of OCC's haircuts for Government securities and GSE debt securities on an at-least monthly basis. In addition, OCC would continue to review the haircuts as part of the annual review of the CRM Policy. Accordingly, OCC believes these changes are consistent with SEC Rule 17Ad–22(e)(5) [43] because they would establish written policies and procedures reasonably designed to set and enforce appropriately conservative collateral haircuts and to review the sufficiency of such haircuts not less than annually.

The proposed changes would also establish the authority of the Management Committee or its delegate to take mitigating actions in the form of applying greater haircuts or, in unusual or unforeseen circumstances, assigning no value or partial value to Government securities or GSE debt securities, as may be the case if there was an elevated risk of an imminent default by the sovereign that issued the securities. This authority would be similar to OCC's present authority to disapprove securities deposited to satisfy margin requirements under I&P .15 to OCC Rule 604, but would allow OCC to take less restrictive action if warranted and would also apply with respect to the Government securities deposited to satisfy Clearing Fund requirements. OCC believes this change would help to limit the assets it accepts as collateral to those with low credit, liquidity, and market risks, consistent with SEC Rule 17Ad–22(e)(5).[44]

Second, the proposal would specify that the concentration limits for letters of credit currently identified in OCC's Rules are minimum standards. The proposed changes would establish OCC's authority to set more restrictive concentration limits for letters of credit based on factors such as market

[34] 15 U.S.C. 78q–1(b)(3)(F).

[35] 17 CFR 240.17Ad–22(e)(5).

[36] 17 CFR 240.17Ad–22(e)(9).

[37] 17 CFR 240.17Ad–22(e)(22).

[38] 17 CFR 240.17Ad–22(e)(23).

[39] 15 U.S.C. 78q–1(b)(3)(F).

[40] *See* OCC Rule 1006(c), (f) (authorizing OCC to borrow from or charge the Clearing Fund in the event of a bank's insolvency or failure to perform an obligation to OCC when due).

[41] 15 U.S.C. 78q–1(b)(3)(F).

[42] 17 CFR 240.17Ad–22(e)(5).

[43] 17 CFR 240.17Ad–22(e)(5).

[44] *Id.*

conditions, the financial condition of approved issuers, and any other factors OCC determines are relevant. OCC believes these changes would help ensure OCC has authority under its policies and procedures to set appropriately conservative concentration limits for letters of credit. OCC would continue to review the concentration limits on at least an annual basis, including as part of the annual review of the CRM Policy. Accordingly, OCC believes these changes are consistent with SEC Rule 17Ad–22(e)(5)[45] because they establish written policies and procedures reasonably designed to set and enforce appropriately conservative concentration limits and to review the sufficiency of those concentration limits not less than annually.

Third, the proposed rule change would strengthen other standards applicable to letter-of-credit issuers, including by (1) increasing the minimum capital requirements for institutions that can issue letters of credit from $100 million in the case of U.S. institutions, and $200 million for non-U.S. institutions, to a required $500 million for any institution; (2) requiring that all letters of credit, regardless of issuer, be payable at a branch within the United States; (3) prohibiting the use of letters of credit for the account of a Clearing Member in which the issuing institution, a parent, or an affiliate has an equity interest in such Clearing Member's total capital, and (4) eliminating reliance on credit ratings for commercial paper, other short term obligations and long term obligations in favor of OCC's internal credit ratings. OCC believes these changes would also serve to reduce the risks associated with letters of credit by ensuring that letters of credit used as margin assets are issued by established banks with sufficient Tier 1 capital and will thus reduce credit risks associated with those letters of credit, including the elimination of wrong-way risk arising from an issuer of a letter of credit having an equity interest in the Clearing Member. Taken together, OCC believes the amendments in the proposed rule change would enhance OCC's credit and collateral risk management process by strengthening OCC's requirements regarding the use of letters of credit as margin assets. Accordingly, OCC believes the proposed changes are consistent with SEC Rule 17Ad–22(e)(5)[46] by helping to limit the assets OCC accepts as collateral to those with low credit, liquidity, and market risk.

Fourth, OCC would remove or amend certain letter-of-credit standards that are no longer appropriately conservative. For example, OCC would conform the sovereign credit rating for a non-U.S. issuer's country of domicile to the standard proposed for Clearing Banks in proposed OCC Rule 203(b)(3). While these standards would be less restrictive than those currently codified in I&P .01 to OCC Rule 604 with respect to letter-of-credit issuers, OCC believes that the current standards are too conservative. The proposed standards better align with sovereign credit ratings considered to be low risk.

For the foregoing reasons, OCC believes the proposed rule changes would establish policies and procedures reasonably designed to limit the assets that OCC accepts as collateral to those with low credit, liquidity and market risks and to set and enforce appropriately conservative haircuts and concentration limits to manage its or its Clearing Members credit exposures, consistent with the requirements of Rule 17Ad–22(e)(5).[47]

Rule 17Ad–22(e)(9)

Rule 17Ad–22(e)(9)[48] requires a covered clearing agency in relevant part to establish, implement, maintain and enforce written policies and procedures reasonably designed to minimize and manage credit and liquidity risk arising from conducting its money settlements in commercial bank money if central bank money is not used by the covered clearing agency. The proposed Clearing Bank standards would help ensure that OCC's Clearing Banks are adequately capitalized and meet certain minimum operational capability and reporting requirements. The proposed rule change would therefore help ensure OCC's ability to monitor and manage the financial and operational risks that may be presented by its Clearing Banks. The proposed rule change would also require that OCC's Risk Committee approve any new Clearing Banks prior to onboarding. OCC believes the proposed change is therefore reasonably designed to minimize and manage the credit and liquidity risk arising from conducting its money settlements in commercial bank money consistent with Rule 17Ad–22(e)(9).[49]

Rule 17Ad–22(e)(22)

Rule 17Ad–22(e)(22)[50] requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to use, or at a minimum, accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, and settlement. OCC believes that by codifying OCC's expectation that Clearing Banks use the SWIFT messaging network when possible, the proposed rule change would mitigate risks by ensuring the use of internationally accepted communication procedures and standards by OCC's Clearing Banks to facilitate efficient payment, clearing, and settlement. OCC believes the proposed rule change is therefore consistent with Rule 17Ad–22(e)(22).[51]

Rule 17Ad–22(e)(23)

Finally, Rule 17Ad–22(e)(23)[52] requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to, among other things, publicly disclose all relevant rules and material procedures, provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency, and provide for a comprehensive public disclosure that describes its material rules, policies, and procedures regarding, among other things, its risk management framework. OCC believes that codifying its minimum standards for Clearing Banks and letter-of-credit issuers will provide Clearing Members and other market participants greater clarity and transparency concerning these relationships while preserving OCC's authority to disapprove specific relationships on other grounds, as warranted by individual facts and circumstances.

In addition, the proposed changes would provide for public disclosure of information related to the collateral haircuts for Government securities and GSE debt securities and concentration limits for letters of credit. OCC's CRM Policy would provide that OCC would make such collateral haircut schedule and concentration limits available on OCC's website and provide Clearing Members with a full day's notice prior to implementing a change. OCC would generally issue an Information Memo

[45] *Id.*

[46] *Id.*

[47] *Id.*

[48] 17 CFR 240.17Ad–22(e)(9).

[49] *Id.*

[50] 17 CFR 240.17Ad–22(e)(22).

[51] *Id.*

[52] 17 CFR 240.17Ad–22(e)(23).

whenever the schedule of haircuts or concentration limits are modified to inform Clearing Members of the changes and would update its Operations Manual. Information Memos are available on OCC's public website. In addition, OCC would disclose information concerning how it sets and enforces these collateral haircuts and concentration limits, including use of the H-VaR approach for determining the adequacy of collateral haircuts, in its responses to the Disclosure Framework for Financial Market Infrastructures issued by the Committee on Payments and Market Infrastructures and the Board of the International Organization of Securities Commissions.[53] OCC believes the proposed rule change is therefore consistent with Rule 17Ad–22(e)(23).[54]

For these reasons, OCC believes that the proposed rule change is consistent with applicable provisions of section 17A of the Exchange Act and Rule 17Ad–22 thereunder.

(B) Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act [55] requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule changes concerning collateral haircuts or letters of credit would impact or impose any burden on competition. The proposed rule change is designed to modify OCC's rules so that the Government securities and GSE debt securities that are pledged as margin or Clearing Fund collateral would be value based on a fixed schedule of haircuts that would be set and enforced pursuant to OCC's CRM Policy, codify certain Clearing Bank standards currently maintained in OCC's internal procedures, and revise certain I&Ps to OCC Rule 604 regarding the acceptability of letters of credit as margin assets. None of these changes would inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and all of the changes would be applied uniformly to all Clearing Members. In addition, the changes to Clearing Bank and letter-of-credit issuer standards are not expected to have any impact on Clearing Members because the Clearing Banks and issuers with which Clearing Members have established relationships meet the proposed standards.

For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies and would not impact or impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the selfregulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. 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 email to *rule-comments@sec.gov.* Please include File Number SR–OCC–2022–012 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–OCC–2022–012. This file number should be included on the subject line if email 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 proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at *https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules.*

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR–OCC- 2022–012 and should be submitted on or before January 13, 2023.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[56]

Sherry R. Haywood,

Assistant Secretary.

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[53] *See* The Options Clearing Corporation Disclosure Framework for Financial Market Infrastructures, *available at https://www.theocc.com/Risk-Management/PFMI-Disclosures.*

[54] 17 CFR 240.17Ad–22(e)(23).

[55] 15 U.S.C. 78q–1(b)(3)(I).

[56] 17 CFR 200.30–3(a)(12).