

# FIA PTG

## PRINCIPAL TRADERS GROUP

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September 4, 2024

Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Proposed Rule Change to Establish a Margin Add-On Charge That Would Be Applied to All Clearing Member Accounts to Help Mitigate the Risks Arising from Intraday and Overnight Trading Activity (File No. SR-OCC-2024-010).

Dear Ms. Countryman:

The FIA Principal Traders Group (“FIA PTG”)<sup>1</sup> appreciates the opportunity to submit this letter to the Securities and Exchange Commission (“SEC” or the “Commission”) in response to the above-referenced rule change (the “Proposal”) by the Options Clearing Corporation (“OCC”). The Proposal does not comply with the Securities Exchange Act of 1934 and as such should be withdrawn. In its current form, the Proposal is poorly designed and will not serve the interests of market participants or the public, lacks material information necessary to meaningfully evaluate it; and at best is imprecise and a blunt instrument to try to solve the OCC’s stated concerns with managing risk around zero-days-to-expiration (“ODTE”) options. FIA PTG would welcome an opportunity to work with the OCC and other industry members to develop a more transparent and tailored solution to address the OCC’s concerns in the Proposal. Unfortunately, this Proposal presents neither a legal nor workable solution.

FIA PTG members are among the most active providers of liquidity to options markets and accordingly are very aware of the recent growth in ODTE options as well as the increased number and frequency of option expiries. FIA PTG members have adjusted their pricing models, risk systems and operational processes to manage these changes, so we are acutely aware of the adaptations required to facilitate the processing of these unique products. While we understand the

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<sup>1</sup> FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy.

challenges faced by the OCC, we are disappointed in the Proposal's lack of transparency around the underdeveloped solution proposed.

First, Section 17A of the Exchange Act requires the OCC to avoid unnecessary costs, remove impediments to a national market system, and promote the public interest. The Proposal, however, attempts to implement new intraday margin calculations on ODTE options by introducing a solution that is unnecessarily costly, imprecise and inefficient. Any methodology that uses a prior time period to apply a charge to a current time period is fraught with challenges, but applying a risk charge for *an entire month* based on the risk from the prior month is poorly designed and unreasonable. With the frequency of expirations in today's options market, it is likely the position you are margining today no longer resembles the position from the prior month. FIA PTG welcomes the opportunity to engage in a dialogue with the OCC regarding potential options for addressing the OCC's stated concerns; however, the Proposal in its current form is not reasonably designed.

Second, the information provided in the Proposal regarding both the methodology used to compute the Intraday Risk Charge (the "Add-On") and the potential economic effects is insufficient. Notably missing from the Proposal is any analysis of the estimated margin costs associated with the Proposal and the impact on OCC members and their clients. FIA PTG members need to see examples of the computation methodology as well as the amount of additional margin generated when the Add-On is applied to specific option portfolio types, as well as detailed information demonstrating the computation of the charges that would be applied to their actual portfolios. Margin costs are a significant part of the overall cost of providing liquidity and accordingly it is essential that market makers are able to anticipate, compute, replicate and include these costs in their pricing models.

In addition to the Add-On, the Proposal includes newly created Intraday Risk Charge Monitoring Thresholds ("Add-On Monitoring Thresholds") which will generate intraday margin calls when intraday risk exceeds the new Add-On. The OCC failed to provide any meaningful detail regarding these new Add-On Monitoring Thresholds, yet seemingly expects to issue five of these Add-On Monitoring Threshold margin calls per day. The OCC must clearly explain and demonstrate how these intraday margin calls will be computed and the amount of costs that will be imposed on member firms (and their clients) in order for market participants to evaluate them. As it stands, the OCC is effectively asking the market to trust that the measure will be effective without providing supporting information.

Third, to the extent the OCC moves forward with some type(s) of add-on, Clearing Members will need to allocate and pass on these costs to their clients. Therefore, it is essential that the OCC is able to provide the detailed information necessary to facilitate accurate allocations of any additional charges to the applicable market participants. We do not believe this capability currently exists, and there is no indication in the Proposal that the OCC plans to provide it. However, we know that market maker activity is broken out into specific sub-accounts at the OCC which should make calculating and providing this information relatively straightforward for FIA PTG members.

Finally, while this issue is not specific to FIA PTG members, we are concerned about the overall market impact of these Add-Ons and additional intraday margin calls on execution-only broker businesses (“Agency Brokers”) and their Clearing Members. Presently, Agency Brokers generally receive allocations from their clients post-trade and these transactions are often not allocated to the end client’s Clearing Member until the end of the trading day. As a result, these trades are initially cleared at the Agency Broker’s Clearing Member intraday before they are transferred to the end client’s Clearing Member through the OCC CMTA process at the end of the day. Unless this allocation process is expedited or amended to avoid having these “soon-to-be allocated trades” captured in the proposed intraday snapshot process, the implementation of the proposed Add-Ons and margin calls will result in these positions being double-margined — the end client’s Clearing Member through the typical end of day margin process and the Agency Broker’s Clearing Member through the proposed historical look back process. The margin impact of this Proposal, which extends to all positions, not just ODTE options, will be very costly and problematic to Agency Brokers, their Clearing Members and the market as a whole and must be addressed before anything moves forward.

For all of the stated reasons, FIA PTG urges the Commission not to approve the Proposal, which is poorly designed, inefficient, and costly. Moreover, the OCC has not met its burden in demonstrating the Proposal is consistent with the Exchange Act. To the extent the OCC believes additional measures are necessary to address potential risks relating to ODTE options, we would welcome the opportunity to work together to identify a tailored solution to address its stated concerns.

If you have any questions, please do not hesitate to contact Joanna Mallers at [jmallers@fia.org](mailto:jmallers@fia.org).  
Respectfully,

FIA Principal Traders Group



Joanna Mallers  
Secretary

cc: Gary Gensler, Chair  
Hester M. Peirce, Commissioner  
Caroline A. Crenshaw, Commissioner  
Mark T. Uyeda, Commissioner  
Jaime Lizárraga, Commissioner