OCC THE FOUNDATION FOR SECURE MARKETS®

Options Clearing Corporation
125 S. Franklin Street, Suite 1200
Chicago, IL 60606
312 322 6200 | theocc.com

May 21, 2025

Via Electronic Submission

Mr. Christopher Kirkpatrick
Secretary of the Commission
U.S. Commodity Futures Trading Commission
Three Lafayette Center
1155 21st St. N.W.
Washington, DC 20581

Re: **Request for Comment on Trading and Clearing of Derivatives on a 24/7 Basis**

Dear Mr. Kirkpatrick:

The Options Clearing Corporation ("OCC") appreciates the opportunity to submit this letter in response to the Commodity Futures Trading Commission's ("CFTC") Request for Comment on Trading and Clearing Derivatives on a 24/7 Basis.

By way of background, OCC was founded in 1973 and is the world's largest equity derivatives clearing organization. OCC operates as a central counterparty ("CCP") under the jurisdiction of both the Securities and Exchange Commission ("SEC") and the CFTC. As a registered clearing agency under the SEC's jurisdiction, OCC is the sole clearing agency for equity options listed on national securities exchanges. As a registered Subpart C DCO under the CFTC's jurisdiction, OCC clears and settles transactions in futures and options on futures. OCC also provides central counterparty clearing and settlement services for securities lending transactions. OCC has been designated by the Financial Stability Oversight Council as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). As a SIFMU, OCC is subject to prudential regulation by the Federal Reserve Board. OCC is recognized by the European Securities and Markets Authority as a Tier 1 third country CCP under Article 25 of the European Market Infrastructure Regulation. OCC operates as a market utility and is owned by five options exchanges.

General Comments

There has been a recent increase in discussions about 24/7 trading. As a matter of regular course, OCC has offered clearing services for certain index options and index futures available for trading during extended trading hours ("ETH") since 2015. OCC encourages continued discussion among market participants, regulators, and service providers about the challenges related to and solutions for moving to 24/7 trading.

OCC generally views "regular trading hours" to mean 8:30 a.m. Central Time to 3:15 p.m. Central Time. For purposes of this letter, OCC will refer to any time periods where trading occurs outside of regular trading hours as "ETH". Currently, the hours during which exchanges make products available for trading during ETH vary by product and exchange.

For purposes of this letter, OCC will address the CFTC's questions under the assumption that 24/7 trading means that all products OCC currently clears and settles during regular trading hours would be available for trading, and therefore, clearance and settlement, at all other times of the day without any period when markets are closed.[1] OCC is also operating under the assumption that the entire current regulatory structure, including but not limited to real-time and pre-trade monitoring by exchanges, would be applied to and adopted for trading at all hours of the day. Deviations from the existing regulatory structure would require additional changes and considerations.

In OCC's view, moving to 24/7 clearance and settlement creates challenges that will take time to address. These challenges include, among other things: risk management considerations, i.e., risk monitoring and margining positions throughout a 24-hour period; participants' ability to access products to hedge derivatives transactions; timing around daily settlement, which currently only occurs once a day in the morning; bank availability and access to Clearing Members funds; exercise and assignment timing considerations; impacts from corporate actions; and operational and risk management processes, support/staffing, and infrastructure. Below, OCC discusses its current approach to clearing and settling transactions during ETH and provides feedback on the broader concepts raised in the CFTC's questions.

Existing OCC ETH Framework
To accommodate clearing products traded during ETH, OCC developed a framework that established additional requirements that both exchanges and OCC Clearing Members must meet to list and trade contracts during ETH, respectively. As these requirements currently apply to exchanges for purposes of listing products during ETH for clearing by OCC, exchanges must establish (i) price reasonability checks, (ii) controls to prevent orders from being executed beyond a certain percentage from the initial execution price, as determined by an exchange, (iii) activity based protections which focus on risk beyond price, such as a high number of trades occurring in a set period of time, and (iv) kill switch capabilities that may be initiated by an exchange. Further, on a quarterly basis, OCC and exchanges that list products in ETH reconcile their lists of Clearing Members eligible to participate in ETH.

As these requirements currently apply to Clearing Members that wish to execute trades during ETH, Clearing Members must (i) register with OCC and provide OCC with a list of staff who

[1] OCC currently clears (i) equity options overlying single name stocks and exchange traded products (e.g., ETFs), (ii) index options, (iii) index futures, and (iv) options on index futures. While OCC is approved to clear security futures, OCC does not currently clear futures that result in the delivery of underlying equity securities.

will be available for OCC to contact during ETH, and (ii) post additional margin equal to the lesser of $10 million or 10% of a firm's net capital to account for OCC's inability to collect additional margin while banks and payment systems are closed.

The ETH Framework also establishes additional risk management procedures that OCC follows during ETH. On an hourly basis during ETH, OCC produces a report detailing the mark to market amounts for all positions, the incremental margin change resulting from ETH positions, and aggregate trade premiums (collectively "Credit Risk Numbers"). Further, the framework includes increasing escalation procedures for when any of a Clearing Member's Credit Risk Numbers reaches predetermined levels during ETH.[2] At each level, OCC has established specific escalation procedures and assigned responsibility for determining what, if any, protective measures are necessary. The protective measures established by the framework include (i) calling for intra-day margin,[3] (ii) increasing a Clearing Member's margin requirement in order to prevent the withdrawal of excess collateral,[4] (iii) requesting an exchange activate its kill switch to prevent further trading by a participant, a Clearing Member, or all market participants, and (iv) imposing restrictions on the transactions, positions, and activities of a Clearing Member.[5]

Responses to CFTC Questions
In lieu of responding to the CFTC's specific questions, OCC instead provides the following overview of the challenges and risks associated with clearing and settling trades 24/7, which encompasses many of the concepts included in the CFTC's questions. Transitioning to markets where all products are available 24/7 for trading would increase financial and operational risks to OCC and would require OCC to make changes, including through the implementation of new, or enhancements to existing, risk management and operational processes.

<u>Financial Risks</u>
Expanding trading hours to 24/7 could increase credit and liquidity risks because OCC would be operating during more periods of time when traditional funding mechanisms are not available. Currently, OCC's full margin run and risk management processes (e.g., stress testing, backtesting) take place overnight while markets are closed, with settlement occurring once per day on trade date plus one day ("T+1") prior to the start of regular trading hours. This daily full margin run is calculated based on end-of-day positions from activity that occurred during regular trading hours and includes activity from the previous night's ETH session, i.e., from T-1. OCC's

---

[2] The escalation levels are $10 million or 10% of a clearing member's net capital, $50 million or 25% of net capital, and $75 million or 50% of net capital.

[3] OCC Rule 609.

[4] OCC Rule 601.

[5] OCC Rule 305.

daily margin calculations also may include various add-ons (e.g., a fixed backtesting charge, and a fixed intraday margin charge), that result from OCC's overnight risk management processing. During regular trading hours, OCC can call for additional margin from Clearing Members that breach certain risk thresholds. OCC would need to review its existing ETH prefunding requirement to determine if it needs to be expanded or if the ability to transfer collateral overnight and on weekends needs to be developed.

There is currently less trade liquidity available in the market during ETH when compared to regular trading hours and that OCC believes that this trend would continue if trading in all products was available 24/7.[6] Lower trade liquidity can lead to higher price swings, wider spreads, and a greater risk of market manipulation. Trade illiquidity also could make it harder for OCC to hedge or close-out a portfolio if a Clearing Member defaulted during ETH. These market liquidity issues may be worse during 24/7 trading compared to what OCC currently observes during ETH because of increased product availability. To implement 24/7 trading, exchanges would need to ensure that markets are fair and transparent and that prices are legitimate even during thinly traded hours.

To support clearing and settlement 24/7, OCC would have to ensure it had the appropriate risk management infrastructure in place to monitor risk during ETH on a larger scale. This could involve the development of new or enhanced risk management tools.

<u>Operational Risks</u>
Allowing 24/7 trading would pose new operational challenges with regard to clearance and settlement. Under a 24/7 trading system, OCC would have to run every settlement cycle while trading is ongoing. OCC does not currently conduct a full margin run during regular trading hours. Rather, OCC monitors intraday trading activity and can call for margin if certain thresholds are breached. OCC would need to develop a process to ensure that it could run a full settlement cycle without impacting ongoing operations.

Further, network maintenance and technology updates currently take place during weekends but would have to be conducted simultaneously with market operations if trading moved to 24/7. More specifically, in a 24/7 environment, OCC would need to implement technology changes and perform network maintenance and updates while markets, and therefore, OCC's systems, are operating. OCC would have to carefully address how changes and maintenance are performed to ensure there were no disruptions to trade processing, risk management, and margin collection.

Furthermore, considering the potential for increased availability of products, and therefore, volume, during ETH, OCC also likely would have to either increase operational staff in the U.S.

---

[6] While volume might increase with access to more products in ETH, there may not be a corresponding increase in liquidity.

overnight or open an office in a non-U.S. jurisdiction for the purpose of monitoring operational processing during ETH. Third party vendor agreements would also need to be considered prior to moving to 24/7 trading. For many vendor relationships, OCC requires a vendor employee to be on call when markets are open and moving to 24/7 trading would be a significant expansion of certain OCC vendor relationships.

Finally, OCC also notes that it has concerns related to how corporate actions would be handled in a 24/7 trading environment. More specifically, equity options have a level of complexity involving corporate actions that generally does not apply to index options and index futures, which currently are the only products OCC clears in ETH. Equity options include options on single name stocks, e.g., options on shares of Amazon or Tesla. Making trading available 24/7 for equity options would create unique risks compared with the other derivatives OCC currently clears in ETH.

Corporate actions include events affecting equity securities, such as mergers, acquisitions, dividends, and stock splits, among others. Many of these transactions are announced in advance. If an adjustment is required to the options on a security undergoing such an event, OCC issues Information Memoranda that announce any impact to the option contract, which, for example, may include changes to option deliverables. OCC also may issue a new symbol for an adjusted option contract in response to a corporate action, which signals to the marketplace that the terms of the option have changed. To the extent reasonably possible, OCC endeavors to effect contract adjustments outside of regular trading hours. Trading on a 24/7 basis will require OCC to make contract adjustments during the trading session, i.e., an option would be modified to reflect the corporate action on the underlying security during an active trading session, which could materially alter an option contract that was just traded. For example, assume a trade made prior to the announcement of a contract adjustment would require delivery of 100 shares upon exercise. If, however, OCC makes a contract adjustment because of a corporate action one minute later to immediately change the deliverable to 100 shares plus $200 per contract in response to a capital gains distribution, the trader’s assumption of the deliverable would have been incorrect because of the resulting change to the terms of the option contract. This could have material implications for valuation and risk assessment purposes for both parties to a trade. Furthermore, because OCC currently is not able to effect option symbol changes during the trading day, there would be no signal to the marketplace that the terms of the option contract have changed. Instead, it would be up to market participants to ensure they are reviewing all OCC Information Memoranda to determine whether a corporate action is going to impact an option they intend to trade.

Conclusion

OCC appreciates the opportunity to provide feedback in response to the request for comments about trading and clearing derivatives on a 24/7 basis. OCC encourages more discussion around this topic, which has material implications with respect to operations and risk management. OCC believes that existing frameworks for trading during extended trading hours may offer insight as to how the markets could move forward in expanding extended trading hours and products available, however, OCC believes it would have to implement additional safeguards, rules, and risk management and operational procedures prior to expanding to 24/7 operations.

Sincerely,

Megan Malone Cohen

Megan Malone Cohen
General Counsel and Corporate Secretary