

## **OCC AND THE U.S. OPTIONS EXCHANGES ADOPT NEW PRE- AND POST-TRADE RISK CONTROL PRINCIPLES**

**CHICAGO** (May 21, 2014) – OCC and the U.S. options exchanges announced today the adoption of pre- and post-trade risk control principles that are designed to enhance the monitoring of trading activity on a real-time basis and reduce the risk of errors or other inappropriate activity that poses a material risk of significant market disruption. The new principles, which are consistent with ongoing initiatives by the U.S. options exchanges to enhance exchange risk controls, will supplement enhanced OCC post-trade controls that are currently under development.

“Strengthening risk controls in the options industry has been a high priority among regulators, exchanges, OCC, and market participants,” said Craig Donohue, OCC Executive Chairman. “OCC has worked collaboratively with all of our exchange participants to develop a uniform set of principles-based exchange risk control protections that will strengthen critical market infrastructure in the U.S. options industry.”

These participants include BATS Exchange, BOX Options Exchange, the Chicago Board Options Exchange, International Securities Exchange Holdings, Inc., Miami International Securities Exchange, NASDAQ OMX Group, Inc., and NYSE Euronext. In developing these new protections, OCC and the exchanges adopted a principles-based approach that balances the need for consistent risk protocols, the different exchange models and technologies across the marketplace, and the need for exchange participants to continue to adapt and innovate.

### **Pre-Trade Exchange Risk Controls**

The pre-trade exchange risk controls to be followed by each options exchange that clears and settles through OCC will include:

- Price reasonability checks to prevent execution of orders at extreme prices;
- Drill-through protections (e.g., price collars) to restrict orders from immediately trading up or down an unlimited number of price intervals and allowing market liquidity to be refreshed prior to the execution of additional transactions;
- Activity-based protections to extend exchange risk controls to factors other than just “price,” including, for example, controls based on time, quantity, or notional value; and
- Kill switches that cancel existing orders and/or block new orders on an exchange-wide or product-specific basis based on established triggers.

In conjunction with the implementation of these new pre-trade risk controls, the U.S. options exchanges are working jointly toward the development of a uniform obvious error rule to nullify or adjust transactions that meet the definition of an obvious or catastrophic error. Upon completion of that work, OCC will adopt a requirement that all OCC participant exchanges apply the uniform rule.

OCC is also working collaboratively with its participant exchanges and other market participants to develop marketwide credit controls that will apply to OCC clearing members and their customers, accounting for activity conducted across all options exchanges. Many options market participants trade across most or all of the U.S. options exchanges. This greatly limits the effectiveness of credit controls set on an exchange-by-exchange basis. OCC, as the central clearinghouse for all U.S. options exchanges, receives aggregate near real-time trading information throughout the trading day that could be incorporated into credit risk control standards to be developed and applied by the U.S. options exchanges, clearing members, and other market participants.

### **Post-Trade Risk Controls**

In order to further strengthen post-trade controls, OCC is in the process of implementing price filters to identify and send for validation potentially erroneous trades priced significantly away from the market. As an initial step, trades identified with prices exceeding \$2,000 will be subject to manual review for reasonability by OCC and exchange staff. OCC is continuing development of more sophisticated post-trade controls, including an automated price collar that will analyze all incoming options trades on a real-time basis using options pricing models to identify with precision any erroneous trades.

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