The brakes are possibly ready to come off (SR-OCC-2021-004 and MORE): By u/c-digs

This week might be it; the brakes are possibly ready to come off (SR-OCC-2021-004 and MORE)

DD 👨‍🔬

I emphasize "***might***". See below and judge for yourself.

TL;DR:

1. On Monday, May 17th, OCC posted an **increase** to their Clearing Fund of **$588,378,155**. This information was found by u/aSphericalCow. In case it isn't clear, OCC is saying that all members must contribute proportionally to add $588m to the common Clearing Fund by Wednesday, May 19 (**tomorrow**).
2. Some Options Clearing Corp (OCC) members (Citadel, Virtu, *and* **Robinhood** If you are not out yet, you better get out ASAP are members...) are likely at risk of default based on recent stress testing that resulted in the sudden increase to the Clearing Fund
3. When they fail, OCC seizes the failing members' holdings as collateral to get a loan to keep everything from collapsing
4. Then OCC needs to sell those holdings at auction to pay that loan back
5. To get the best return at auction and minimize their own exposure (paying out of their own funds), OCC needs more bidders
6. To get more bidders, they relaxed the qualification requirements for existing members and non-members in SR-OCC-2021-004 filed on March 31, 2021 and entered into the Federal Register on April 6 (thanks u/StatisticianActive48) with a 45 day review period that ends on **Friday, May 21**.
7. This rule change is set to go into effect **this week** and sets a path for a more controlled wind-down of a defaulting member and decreases volatility in the wake of a collapse and therefore, SR-OCC-2021-004 could be seen as a prerequisite by many parties such as the OCC and SEC and even Berkshire and BlackRock.

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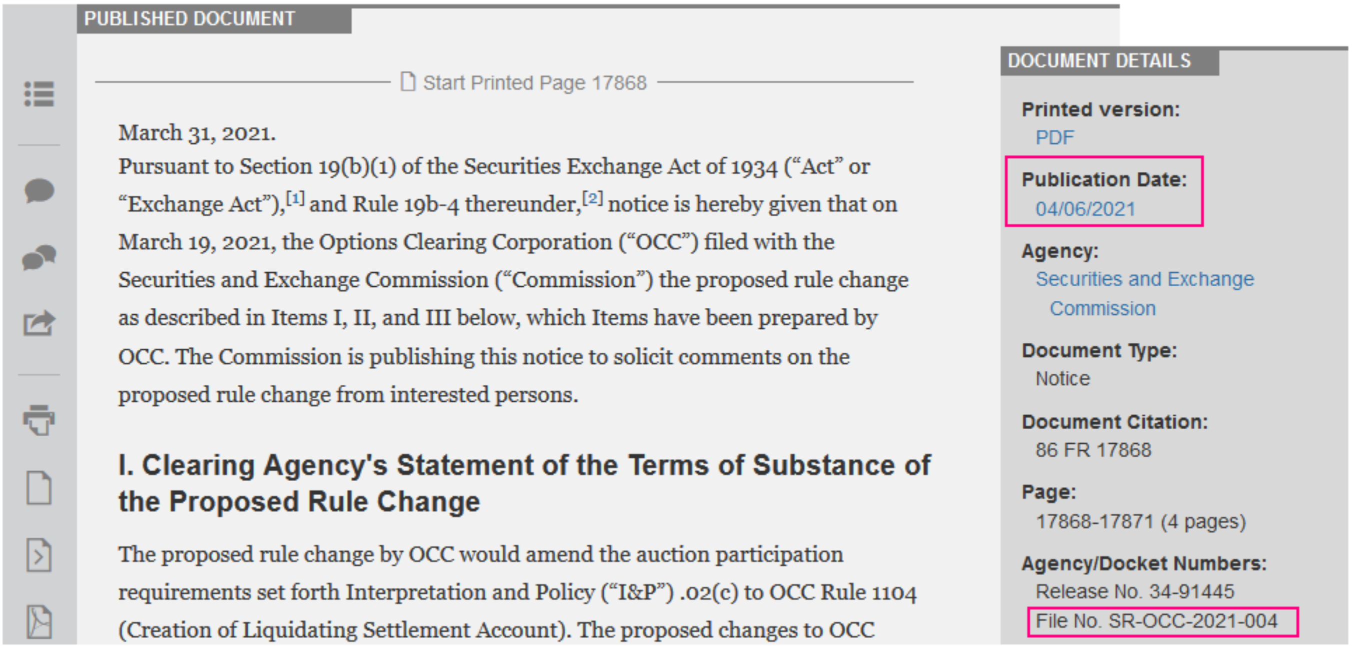
*This was originally posted last week as I believed we were on the verge of moving out of stasis. I want to thank **all** of the folks that reached out regarding my ban and the mods for reversing the ban. I mostly lurk so I took the ban in stride. I also want to thank and credit all of the folks who reached out with corrections and additional information that made this DD better!*

SR-OCC-2021-004 ("OCC-004") was filed on **March 31, 2021** and entered into the Federal Register on **April 6, 2021:**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March 31, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on March 19, 2021, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared 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

The proposed rule change by OCC would amend the auction participation requirements set forth Interpretation and Policy ("I&P") .02(c) to OCC Rule 1104 (Creation of Liquidating Settlement Account). The proposed changes to OCC

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Filing date for SR-OCC-2021-004 in the Federal Register

With a date of effectiveness **45 calendar days** after the entry into the Federal Register.
That would put the date at **May 21, 2021** as pointed out by u/StatisticianActive48.
One of two things will happen this week:

1. It will go into effectiveness sometime between now and Friday, May 21.
2. It will be postponed with an objection as we have seen with both SR-OCC-2021-003 and SR-NSCC-2021-002 in which case it will be pushed out to the June/August time frame (thanks u/rockitman12).

If it does not get delayed, I expect a full collapse of the shorts in the near future. (Remember: it may take days for the margin calls to go into full force). Some of the activity we've seen this week is definitely pointing to a change in the stasis we've been in since March 16th.

- The additional FUD with respect to Glacier Capital (courtesy u/MrMadium and u/timmmmmmmyy)
- The options data aligning on Friday, May 21 (courtesy u/hell-mitc)
- The FTD loop that may end T+35 on Monday, May 24 (courtesy u/Criand)
- The recent DD with regards to SR-BOX-2021-11 (courtesy u/Inevitable-Elk-4162)

I don't want to plaster dates, but this week seems to be a convergence of many interesting events.
On April 5, 2021, I wrote the following:

Does This Change My Strategy?

No. Buy and hold shares.

What you can take away from this is that we will not see significant price movement up or down for the foreseeable future until OCC-004 and OCC-003 are in place; you are literally fighting against all of Wall Street, even the GME long institutions. There is literally no point buying deep OTM options until there is a whiff of OCC-004 and OCC-003 getting close to implementation. We will keep trading sideways, borrow rate will be inexplicably low, volume will be absent, etc. until DTC and OCC members are protected and they let off the brakes; Citadel and GME shorts are not and have not been in control. DTC, OCC, and all non-defaulting members have been preparing for the default of GME shorts.

Shift your mindset from "*Citadel is shorting the market*" or "*It's a battle between Short HF and Long Whales!*" to "*DTC, OCC, SEC, and the shorts are preparing for the squeeze*"

If you believe that BlackRock is working with RC on this, they have agreed that they are going to wait to announce the CEO change not because they are waiting for Sherman but because they are holding price stasis until they are get access to the shorts' assets.

My conclusion on April 5 after pondering why we had been in a "sideways" trading pattern for two weeks at that time.

For those that have not followed my posts in the past, the OCC is the **Options Clearing Corporation** which functions similarly to the DTCC except its for options. My thought is that **OCC-004 is a critical piece of the puzzle** to prepare for the first major margin calls that will initiate the squeeze as it opens up the asset auction qualifications and procedures once an OCC member defaults as a result.

As a reminder, here are the membership lists for DTCC and OCC:

- DTC: https://www.dtcc.com/-/media/Files/Downloads/client-center/DTC/alpha.pdf
- OCC: https://www.theocc.com/Company-Information/Member-Directory

Just a cross section:

Member	***DTC***	***OCC***
Apex Clearing	✓	✓
Barclays	✓	✓
Bank of America	✓	✓
Charles Schwab	✓	✓
Citadel Clearing	✓	✓
Citadel Securities	✓	✓
Credit Suisse Securities	✓	✓

Member	***DTC***	***OCC***
Deutsche Bank	✓	✓
Goldman Sachs	✓	✓
Interactive Brokers	✓	✓
JP Morgan	✓	✓
Merrill Lynch	✓	✓
Robinhood Securities	✓	✓
TD Ameritrade	✓	✓
UBS Securities	✓	✓
Vanguard	✓	✓

The reason why OCC-004 this is important is **market stability.** Having major market participants fail without a plan would create excess market turmoil (it is already going to be a shitshow). My sense has been that all vested parties have been working on how to structure this squeeze and contain the fallout. u/k2fa91's post yesterday on a document entered into the Federal Register on April 13 further hammers this home:

The Commission is adopting § 190.00(c)(3)(ii) to address the division of customer property and member property in proceedings in which the debtor is a clearing organization. In such a proceeding, customer property consists of member property, which is distributed to pay member claims based on members' house accounts, an customer property other than member property, which is reserved for payment of claims for the benefit of members' public customers.

In other words, what to do with customer accounts when a clearing organization -- **like Citadel or Robinhood** -- goes into bankruptcy.

I believe that this is one of the reasons why we have been trading sideways with virtually no volume since March 16th:

The two distinct bands we've been trading in since March 16th. The 3.5m share offering is plainly visible in hindsight.

It is also likely one of the reasons why many big players like [Berkshire] and BlackRock are moving into cash heavy positions.
When an OCC member -- ***like Citadel*** -- fails, the member's assets are used as collateral to obtain **immediate liquidity** to keep the markets and OCC functioning. These assets are then auctioned off to recover the funds used to inject that liquidity. The thinking is that the more bidders at auction, the more likely it is that the assets will be sold closer to market value and prevent a market-wide collapse of asset prices (this is kind of already happening these past two weeks...).

other default management tools.[7] Similarly, a lack of competitive bidding may require OCC to accept a best bid that results in greater loss to OCC's default management resources than OCC would have been able to accept through more competitive bidding that resulted in a higher best bid. Accordingly, to the extent OCC receives more competitive bids OCC could liquidate a suspended Clearing Member's remaining portfolio without the need for additional auctions or the use of other default management tools, and similarly increase the likelihood that OCC receives a best bid that minimizes loss to its default management resources. OCC believes these improvements, generally,

Key lines on page 7

It also minimizes OCC members' exposure to that default if they can recover more cash through the auction process. **Remember, OCC members include: Bank of America, Charles Schwab, Citadel, Credit Suisse, Deutsche Bank, Goldman Sachs, Interactive Brokers, JP Morgan, Robinhood, TD Ameritrade, UBS, Vanguard, and many others** who don't want to pay for the mistakes of a few of their members.

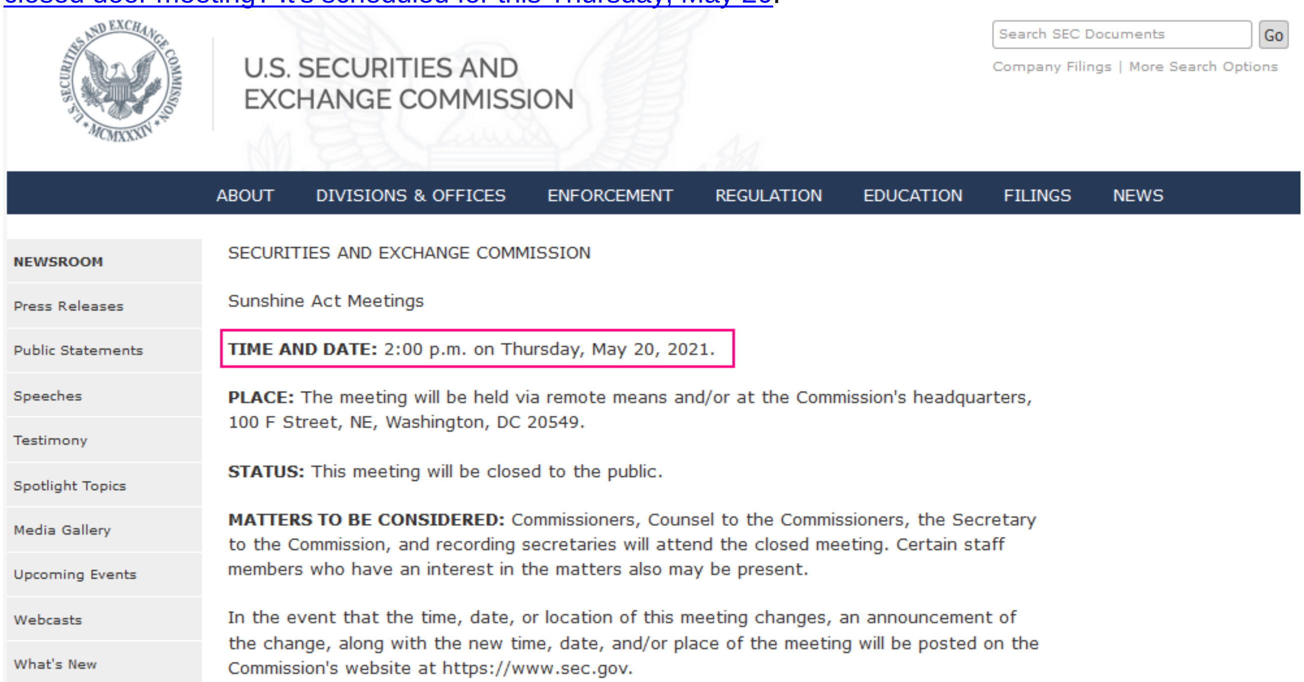
Additionally, the changes in OCC-004 result in ***non-OCC members*** having an easier path to bidding at auction (remember: firms like Fidelity, Berkshire, and BlackRock are **NOT** OCC members) as part of this process to qualify more bidders.

First, OCC proposes to revise I&P .02(c) to reflect that Clearing Members would not need to be invited by OCC to become pre-qualified auction bidders; instead, the revised language in I&P .02(c) would make clear that all Clearing Members are invited to participate in auctions of a suspended Clearing Member's remaining portfolio. OCC would retain, but slightly rephrase, the existing requirement that any Clearing Member seeking to be included in the pool of pre-qualified auction bidders must complete required auction documentation in advance; OCC's proposed changes would explain that in order for a Clearing Member to be pre-qualified as an auction bidder, the Clearing Member would need to complete any required auction documentation in advance.

Second, OCC proposes to revise I&P .02(c) to reflect that non-Clearing Members would no longer need to be invited to become pre-qualified auction bidders by OCC posting notices to its website from time-to-time. Further, the revisions to I&P .02(c) would remove the existing requirements that a non-Clearing Member must actively trade in the asset class in which it proposes to submit bids and must actively trade in markets cleared by OCC. Instead, the revisions to I&P .02(c) would make clear that non-Clearing Members could become pre-qualified auction bidders by (i) having a Clearing Member sponsor to submit bids on behalf of the non-Clearing Member, (ii) having a Clearing Member agree to guarantee and settle any accepted bid made by the non-Clearing Member, and (iii) completing any required auction documentation in advance.

Pages 4 and 5

My conjecture is that all of DTCC, OCC, and SEC those "postponed" closed-door meetings? have been buying time to prepare for the fallout of the squeeze so what we see with the price manipulation around GME is not solely due to the action of the shorts, but all of the key market players as a whole to contain this fallout from potentially multiple members of DTCC and OCC failing. [The next closed door meeting? It's scheduled for this Thursday, May 20].



The next closed door meeting at the SEC is this Thursday, May 20

Furthermore, user u/aSphericalCow sent me something really interesting this morning:

TO: ALL CLEARING MEMBERS

DATE: MAY 17, 2021

SUBJECT: TEMPORARY INCREASE TO CLEARING FUND SIZE

OCC is issuing this Information Memorandum to notify Clearing Members of a temporary increase in the size of the Clearing Fund. OCC recently discovered an error in the treatment of its Liquidation Cost Add-On charge in Clearing Fund shortfall calculations.[1] This error has resulted in the Clearing Fund being sized at a level below the amount that should be required under OCC's stress testing and Clearing Fund methodology.

In October 2019, OCC modified the STANS margin methodology by adding a risk-based liquidation charge intended to account for the cost of liquidating a defaulting Clearing Member's portfolio ("Liquidation Cost Add-On"). As part of the proposal, OCC also modified the Comprehensive Stress Testing and Clearing Fund Methodology so that the value of the Liquidation Cost Add-On charge would effectively be excluded from each Clearing Member's total margin calculation when comparing that number with its stressed shortfall amounts. OCC recently discovered that the Liquidation Cost Add-On charge is not being properly excluded from margin in the Clearing Fund shortfall calculations. As a result, OCC is using its authority under OCC Rule 1001(d) to temporarily increase the size of the Clearing Fund on an intra-month basis until the next monthly sizing of the Clearing Fund on June 1, 2021. Upon the June 1 resizing, the temporary increase will be incorporated into the corrected Clearing Fund shortfall calculations.

Pursuant to OCC Rule 1001(d), OCC is authorized to temporarily increase the size of the Clearing Fund at any time for the protection of the OCC, Clearing Members or the general public. OCC believes the temporary increase in Clearing Fund size is necessary to ensure that OCC's prefunded financial resources are consistent with the amounts required under OCC's stress testing and Clearing Fund methodology and is therefore in furtherance of the integrity of OCC and the stability of the financial system and takes into consideration the legitimate interests of Clearing Members and market participants.

The temporary increase would result in an increase of $588,378,155 to the Clearing Fund, which will be allocated proportionately among Clearing Members. Clearing Members with a deficit for their portion of the Clearing Fund will receive notification today, May 17, of the amount of the deficit. The acceptable forms of deposit for Clearing Fund deficits include cash and Government securities in accordance with OCC Rule 1002 and minimum Clearing Fund Cash Requirements will apply.

"The temporary increase would result in an increase OF $588,378,155 TO the Clearing Fund"

Any Clearing Member who does not satisfy a Clearing Fund deficit within the two (2) b
ending at 9:00am Central Time on May 19, 2021, will be immediately issued a draft up
order to satisfy any Clearing Fund deficit.

An ominous note at the end of that document that the Clearing Fund will increase nearly $600m by tomorrow, 9 AM US Central Time.

u/aSphericalCow's finding is a big piece of this puzzle that I was missing last week because I think this shows a sense of urgency on behalf of OCC to get this additional $588m into their Clearing Fund. *If members do not post their share, OCC will take it by force*. The memo also gives us a hint at the outcome of the stress test and I think we can conclude that it wasn't pretty if they are seeking over half a billion dollars.

That's a sudden increase of more than half a billion dollars *on top of* the existing Clearing Fund and mitigates the delay of SR-OCC-2021-003 which aimed to increase the size of the Clearing Fund contributions and was objected to and delayed by Susquehanna International Group.

To watch for this regulatory activity, check here:

- SEC What's New page which is updated daily usually after noon: https://www.sec.gov/news/whatsnew/wn-today.shtml
- SEC OCC Rulemaking page: https://www.sec.gov/rules/sro/occ.htm

Are we guaranteed to launch immediately after OCC-004? **No**. But I think that the likeliness of launch *feels* imminent with the multiple incidents we are observing this week, the market pullback, and the sudden rise in overall volatility. I think it will also depend on how far along they are with their pool of bidders.

FAQ

Q: Should I get out of Charles Schwab, TD Ameritrade, or E*Trade?

While they are all members of OCC, unless they are exposed to GME/AMC shorts, they are likely going to be fine. The problem with Citadel and Virtu is that their sister trading firms are highly exposed in GME and AMC short positions. Robinhood as well.

Citadel is additionally exposed through their market maker status and creating naked shorts as part of market making.

This is also likely one of the reasons why the margin requirements for AMC and GME are now going through the roof on all trading platforms.

Q: Will we get paid?

The whole point of preparing that liquidity is in anticipation of having to continue to fulfill buy/sell transactions. Without that liquidity, the market seizes up. You will get paid; DTCC and OCC will use those loans to pay obligations and then dip into their own funds.

I also submit the following quote from SEC chairman Gary Gensler from one of his lectures at MIT (timestamped YouTube link):

As we're not sharing the economic well-being broadly in the economy. Middle income America, middle income Europe in particular is not sharing as much. I think that hurts us in two ways. One is that is if we have the downturn, there's not as much uh…all economies these days are led by consumption. There's not as much ability to respond with consumption. And two I think it also tears at our social fabric.

Q: How is $588m going to make a difference?

The $588m is going into the OCC member Clearing Fund and isn't meant to shore up the defaulting member; it's meant to add to the pool of funds to shore up *the non-defaulting members*.

You also have to keep in mind that much like a lease agreement prevents a landlord from arbitrarily increasing your rent, OCC cannot arbitrarily raise capital requirements from its members; it can only do so within the constraints of existing agreements and formulas for calculating capital contributions. This is part of the reason why they are amending their member agreement with respect to capital requirements via SR-OCC-2021-003 "Minimum skin in the game"