



TO: ALL CLEARING MEMBERS

DATE: SEPTEMBER 22, 2014

SUBJECT: TRADE PRICE REASONABLENESS CHECKS

OCC has received SEC approval to implement an option premium trade price reasonableness check process to increase the likelihood that erroneous trades will be identified and voided. This process represents the first step in a phased approach to implement post-trade risk controls with respect to trades priced significantly away from current market prices and the risks they present to OCC. In addition, OCC staff is currently working with the exchanges on documentation and standards for pre-trade risk controls designed to enhance real-time monitoring of trading activity and to reduce the risk of trading errors causing significant market disruption.

Effective immediately, OCC is implementing the new trade price reasonableness check process, whereby any securities or futures option trade accepted by OCC with a premium price that exceeds a pre-determined premium price threshold (initially set at \$2,000) will be flagged for further review. Once a trade has been flagged, the trade will not update Clearing Member position accounts or be reported to Clearing Members while undergoing a price review.

When this occurs, OCC National Operations staff will perform a reasonability check of the trade price relative to market conditions observed during that trading session, whereby staff will compare the trade price to the approximate intrinsic value of the option. If the trade price is deemed to be within 5% of the approximate intrinsic value, the trade will be allowed to continue through OCC's clearing and reporting processes using the originally reported price. If the trade price does not fall within this range, then OCC staff will immediately contact the submitting exchange for evaluation under the exchange's obvious error or other applicable rules.

Once an exchange is contacted on a flagged trade, the exchange will be required to respond whether the trade is valid or should be busted. If the exchange deems the trade price to be valid, the trade will be allowed to continue through OCC's clearing and reporting processes using the originally reported price. If the trade price is deemed invalid, the exchange will be expected to submit a bust transaction removing the trade. In the event of any situation preventing the exchange from submitting a bust transaction, OCC staff will manually reject the trade based on the exchange's instruction.

Any permanent changes to the premium threshold amount or intrinsic value percentage will require further rule changes by OCC, although the premium threshold amount may be temporarily suspended in response to market or other conditions.

If you have any questions regarding this memo, please contact Member Services Help Desk at the following numbers: 800-544-6091 or 800-621-6072. Within Canada, please call 800-424-7320. Clearing Members may also contact their Member Services Representative or e-mail us at memberservices@theocc.com.