

Title: Anatomy of an Options Trade: Part 3: OCC Rule 901

Author: No-Fox-1400

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Part 3: The OCC, yeah you know me?

Yes. We do. You look like the NSCC.

+1 CNS = -1 FTD

TA;CR: This section breaks down the rules. The pictures start again in Part 4.

- * They are not contractually obligated to buy you a share when you exercise an option.
- * The CBOE deems the trade complete when they pass it off and it's accepted by the OCC.
- * The OCC deems the trade complete when they pass it off to the NSCC and it's accepted.
- * The NSCC nets longs together and then shorts together. They make the shorts disappear through CNS and use the longs to clear FTD's

Please check out all of the Anatomy

[The Anatomy of an Options Trade: Parts 1 & 2 Beginning a trade and the CBOE : DDintoGME (reddit.com)](https://www.reddit.com/r/DDintoGME/comments/rdc2c/the_anatomy_of_an_options_trade_parts_1_2/)

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Part 3.1 Chapter IX Introduction

The rules for delivery and payment from Chapter IX of the OCC rule book lays out why the OCC looks like the NSCC.

[OCC Rule 901 Introduction](<https://preview.redd.it/9m76z810uq481.png?width=552&format=png&auto=webp&s=34fa698afa39d7197f1cdbc2839a05e3a2b1d97>)

That's a big paragraph. Let's break that down.

>“The Rules in this Chapter are applicable to the discharge of delivery and payment obligations arising out of the exercise of physically settled stock option contracts and the maturity of physically settled stock

futures contracts.”

Ape speak: These rules are how the OCC makes sure people “honor” their contracts that deal with securities.

>“As a general policy, the Corporation will direct that such obligations be settled through the facilities of the correspondent clearing corporation as specified in Rule 901 to the extent that the security to be delivered and received is CCC-eligible, and will direct that such obligations be settled on a broker-to-broker basis as specified in Rules 903 through 912 to the extent that the security to be delivered and received is not CCC-eligible.”

Ape speak: Fuck, are they sure this isn't a run-on sentence? *Deep breath*. What they are saying here is that based on Rule 901, any CCC-eligible security gets settled at their respective clearing corporations. They also say that all CCC-eligible securities are subject to Rule 901 for clearing. The rest of rules 903-912 are for non CCC-eligible securities. For example, as we will see with the following rules, security deliveries get cleared through the DTC. Remember. This is just the second sentence of the introduction.

It looks like the security being CCC-eligible or not CCC-eligible is pretty important. We should look up what The OCC means by that. To do that we have to look at The OCC bylaws found here. [https://www.theocc.com/getmedia/3309eceb-56cf-48fc-b3b3-498669a24572/occ_bylaws.pdf](https://www.theocc.com/getmedia/3309eceb-56cf-48fc-b3b3-498669a24572/occ_bylaws.pdf);

On page 5 we find the definition

[CCC-eligible definition](<https://preview.redd.it/dddmoehn1uq481.png?width=552&format;=png&auto;=webp&s;=03398eadb25af66f39c185777ac542ec12e86499>)

Ape speak: Well balls. CCC eligible means that the underlying security can be cleared by the CNS system or Balance Order system at the NSCC. GME definitely falls under this category.

Let's recap what we have in the first two sentences of the introduction. The following is a paraphrasing.

If a payment obligation arises out of discharge (exercise) of options contracts that deal with GME, then the OCC will clear any share obligation through either the CNS or Balance Order system at the NSCC.

Ok ok ok ok. This is almost the smoking gun. This description is saying they do not go buy your share on the open market. They are saying that CCC-eligible options contract share delivery contract gets added to the same CNS balance and Balance Order certificate balance that we have been complaining about since the summer. We know CNS is how they get out of having to go buy a share in the lit market whenever possible.. but let's not get ahead of ourselves. This is still the introduction. Let's continue.

****How fucked is the NSCC?****

There is going to be a question about what CNS Balance is and how it is used to hide FTD's. The mechanics are that the NSCC will tell the OCC that they accept the trade because a member would need to be in bad standing for the order to not be accepted. If you are interested in why the NSCC is a vacuum for share obligations, please review these three detailed posts about the NSCC and net settlement

<https://www.reddit.com/user/laflammaster/>

<https://preview.redd.it/x0vpseuvuq481.png?width=944&format;=png&auto;=webp&s;=c36daf3cdeb24b5c65a40c32e55f38fb2d5f8fb9>

<https://www.reddit.com/user/semerien/>

<https://preview.redd.it/wfduttz1vq481.png?width=945&format;=png&auto;=webp&s;=f356240d61e16a4d691d0a019b35af3453a01ef1>

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<https://preview.redd.it/z0ca42l5vq481.png?width=949&format=png&auto=webp&s=23868633456ce3eea2c834b9da06a31d99f726c5>

They don't care about negatives, and do care about positives. Positives are shares that the SHF/MM/BD has located that has someone else's liability attached to it. Sure 10 steps back, it may be traced to their liability, but no one looks at that. So the positive of someone else's liability negates one of the liabilities (FTD's) in CNS.

\+1 CNS = -1 FTD

>"However, the Corporation may in its discretion make exceptions to this policy, either to direct that the delivery of CCC-eligible securities be made on a broker-to-broker basis as specified in Rules 903 through 912, utilizing services of the correspondent clearing corporation or otherwise, or (with the agreement of the correspondent clearing corporation) to direct that the delivery of non-CCC-eligible securities be made through the facilities of the correspondent clearing corporation as specified in Rule 901. The Corporation may alter a previous designation of a settlement method at any time (i) prior to the obligation time (as defined in Rule 901(c)) for any settlement to be made through the facilities of the correspondent clearing corporation pursuant to Rule 901 or (ii) prior to the designated delivery date for any settlement to be made on a broker-to-broker basis pursuant to Rules 903 through 912 by giving the affected Clearing Members such notice thereof as is practicable under the circumstances. Adopted March 16, 2004. Amended July 31, 2017."

Ape speak: This is the rest of the introduction. It says that even though they have Rule 901 for CCC-eligible securities, which get cleared at respective clearing organizations, they may from time to time direct CCC-eligible securities to be cleared through broker to broker transactions, which follow rules 903-912.

****Part 3.2 Rule 901 The biggie****

[OCC Rule 901\(\a\)](<https://preview.redd.it/g2gdvqi8vq481.png?width=552&format=png&auto=webp&s=60f1d0593f37be2576f8e85630bad7c6d42a15df>)

Ape speak: All good in the hood. All the clearing members are participants in good standing except when they've delegated authority, or they are a Canadian Clearing member with some CDS stuff.

[Rule 901\(\b\)](<https://preview.redd.it/5mj2wlr9vq481.png?width=552&format=png&auto=webp&s=7c755316ddc804a61d4be40dc990d6cce6df6c5a>)

Ape speak: The OCC nets the share balance of all options contracts and sends that net settlement amount to the NSCC, the appropriate clearing corporation for GME, where it gets added to their CNS and Balance Order Systems.

This is the smoking gun everyone.

The shares inside of options are netted for each member each day and sent to the NSCC to add or subtract from their net settlement account that also get used to settle purchases of all shares of GME. They do not have to go locate a share. This shows that any options contract that is exercised by an ape or a SHF, including ITM and OTM options, gets added to the CNS balance at the NSCC. That means the shares from options are "located" real shares from someone else's liability. Added to CNS balance Options can clear FTD's. I know it hurts to hear this for some, but just based on this rule alone, if you exercise less than 50% of your shares, you could be selling exercisable shares to an SHF who may have a net negative

CNS balance for the day. That SHF may prefer to exercise those contracts, and deliver the shares to their CNS balance at the NSCC, eliminating FTD's. Do you wonder how they cleared over 1 million FTD's in August of this year in 1 day? I bet some of them were cleared due to Rule 901.

This is the smoking gun everyone.

But let's be complete and continue to all of Chapter IX.

[OCC Rule 901\c)](<https://preview.redd.it/komks1uevq481.png?width=552&format=png&auto=webp&s=70ed7282217e3d11dadeb0d24519678047f35168>)

[OCC Rule 901\c)](<https://preview.redd.it/afebv51gvq481.png?width=552&format=png&auto=webp&s=54c599c6e61ac13cb6a96df2841701fd617bfece>)

Ape speak: The OCC passes this off to the clearing corp, the NSCC in the case of GME, and if the NSCC doesn't say it's bad, the the OCC seems the obligation satisfied. This is where the OCC passes the buck to the NSCC.

[OCC Rule 901\d)](<https://preview.redd.it/nxdgsvzgvq481.png?width=552&format=png&auto=webp&s=b228cad072f30fa11702965420e54b3dd4bdd620>)

Ape speak: The OCC is all clear if no one says boo about them passing the buck to the NSCC. But they can also change this rule at their whim if they want.

[OCC Rule 901\e)](<https://preview.redd.it/1jscq3tivq481.png?width=552&format=png&auto=webp&s=30a684efbeb818da8e48b3b16998866c7f059f17>)

Ape speak: The OCC will normally say use rule 901, but they don't have to, and even if they did, they can have backsies.

[OCC Rule 901\f)](<https://preview.redd.it/hbrqngbkvq481.png?width=552&format=png&auto=webp&s=dd10f8a4f848800b4adf199dc9ac9ce7d5ca8567>)

Ape speak: Clearing Members can use the clearing corporations rules when it comes to distribution for settlement. In GME's case, that's the NSCC

[OCC Rule 901\g)](<https://preview.redd.it/8fk5dlplvq481.png?width=552&format=png&auto=webp&s=0fdc437102bae8996bb0739c17db7e406323def>)

[OCC Rule 901\g)](<https://preview.redd.it/byjhpplmvq481.png?width=552&format=png&auto=webp&s=41e757b5dff03ee9a658bd74ebe52068ff928b00>)

Ape speak: A lot of words to say they can delegate authority to someone else.

[OCC Rule 901\(\h\)](<https://preview.redd.it/5jimr0xnvq481.png?width=552&format;=png&auto;=webp&s;=491697aca79cbac156dec09ad0931b119c64a8dc>)

Ape speak: If the clearing member is Canadian, then CDS can act on its behalf if they are interacting with an existing CDS account. This deals with CDS options, not material to GME I don't think.

[OCC Rule 901\(\i\)](<https://preview.redd.it/8hhhalrbpvq481.png?width=552&format;=png&auto;=webp&s;=c2cdba411d9f360402968777f895a1742a43103a>)

Ape speak: The OCC washes its hands of anything cleared through Rule 901 as long as everyone agrees the OCC passed the buck.

****Part 3.3 Rule 901 Interpretations****

Now the following parts are interpretations that the OCC included in the rulebook to clarify meanings.

[OCC Rule 901 Interpretation .01](<https://preview.redd.it/yaezxy9qvq481.png?width=552&format;=png&auto;=webp&s;=42e215dbe59e6c89bd3770a43cb3fa7314829a6c>)

Ape speak: First off you'll notice in the header change and that another rule is about to start. The rest of Rule 901 is saying that if an ex-date happens, such as a dividend, after exercise but before clearing, Rule 901 wasn't clear who was responsible for paying. This one is saying the one delivering shares is responsible.

[OCC Rule 901 Interpretation .02](<https://preview.redd.it/e8q0truvq481.png?width=552&format;=png&auto;=webp&s;=35a82c957fc874ece0cd12c8b2c5e234e7b5152a>)

Ape speak: CCC-eligible securities are supposed to go Rule 901, and non CCC-eligible should be cleared by 903-912. But hey, we are the OCC and we say we can force either security through either process.

****Please check out all of the Anatomy****

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