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August 24, 2018

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: File No. SR-OCC-2015-02

Dear Mr. Fields:

At the request of the Commission, I write on behalf of Petitioner Susquehanna International Group, LLP to place on the record of this proceeding information Susquehanna provided to the Commission on August 1, 2018.

First, Susquehanna consistently has argued that the Options Clearing Corporation (“OCC”) has funding alternatives available to it that are substantially less expensive than the Capital Plan that currently is enriching the shareholder exchanges. For example, by letter dated August 25, 2017, Susquehanna itself offered to provide OCC with up to \$150 million of funding at a rate of LIBOR + 3%.¹ Susquehanna is now improving this offer by offering to provide up to \$150 million of funding at the Federal Funds Rate.²

Second, Susquehanna consistently has argued that the Capital Plan harms investors and the public interest by requiring that a substantial portion of OCC clearing fees fund the unduly large dividends that are paid to the shareholder exchanges.³ While OCC clearing fees are imposed on clearing members, public investors in particular ultimately bear the economic brunt of the fees used to finance the undue dividends. OCC fees imposed on clearing agents are largely passed on to their clients. Market Maker clients are apt to then pass such expenses on to investors in the form of wider quotes, and agency broker/dealer clients generally pass the higher fees through to their customers in the form of higher transaction charges. The amount of pass-through expensing to public investors is generally believed to be very high, particularly in regards to

¹ See Petitioners’ Submission on Remand from the U.S. Court of Appeals for the D.C. Cir. in Opp’n to Proposed Rule Change Concerning a Proposed Capital Plan for Raising Additional Capital That Would Support the OCC’s Function as a Systemically Important Financial Market Utility at 15, File No. SR-OCC-2015-02 (Nov. 30, 2017) (“Petitioners’ Submission”).

² LIBOR typically is a few tenths of a point higher than the Federal Funds Rate, see Kimberly Amadeo, *Libor Rate History Compared to Fed Funds Rate*, THE BALANCE (Apr. 26, 2018), <https://goo.gl/UGXQPX>, and Susquehanna is offering to provide capital at the Federal Funds Rate itself, not that Rate plus any additional amount.

³ See, e.g., Petitioners’ Submission at 27–35.

transactions by public investors cleared as “customer.” Over 40% of OCC options volume is cleared as customer.⁴ Consequently, as clearing fees grow substantially with the budget, public investors pay more for their options transactions—and these added expenses add up quickly for the public under the Capital Plan. Indeed, clearing fee revenues have escalated upward at a staggering rate from the baseline before OCC initially increased its fees to generate higher capital levels. In 2013, OCC generated \$156.5 million in revenue from clearing fees.⁵ By 2017, that figure had increased to \$295.5 million.⁶ This \$139 million increase in clearing costs already constitutes a significant burden on retail investors and the public in general. It is a disturbing fact that a significant portion of this amount has been used to pay annual dividends with returns in excess of 20%—likely to exceed 30% this year—for the benefit of the shareholder exchanges.

Thus, ultimately, whether directly or indirectly, retail investors and the public in general largely bear the burden of the exorbitant dividends to the shareholder exchanges. And the concern with the unduly burdensome nature of the OCC Plan grows worse each year as the size of the dividends continue to increase.

Finally, an additional matter has come to light since August 1 that we wish to bring to the Commission’s attention. On August 22, 2018, the Wall Street Journal reported that “the NYSE recently considered selling its stake in OCC.”⁷ The potential for the shareholder exchanges to monetize their now-lucrative interest in OCC through a sale of that interest rebuts OCC’s repeated insistence that the shareholder exchanges’ investment is an “illiquid” one,⁸ and it highlights the conflict of interest faced by the shareholder exchanges when they participated in devising the Capital Plan.

⁴ See OCC, *Monthly Statistics Report for Equity Options*, <https://goo.gl/vWuFNN> (select Cleared Contract Volume by Account Type); OCC, *Monthly Statistics Report for Index/Other Options*, <https://goo.gl/smHx6A> (select Cleared Contract Volume by Account Type).

⁵ See OCC, 2015 ANNUAL REPORT 25 (2016), available at <https://goo.gl/P3gCPh>. See also Exhibit A (OCC Financial Information).

⁶ See OCC, 2017 ANNUAL REPORT 31 (2018), available at <https://goo.gl/MDKR46>. See also Exhibit A (OCC Financial Information).

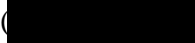
⁷ Gunjan Banerji, *A Messy Battle Brews in the Options Market*, WALL ST. J. (Aug. 22, 2018), <http://goo.gl/joMDG7>.

⁸ See, e.g., The Option Clearing Corporation’s Post-Remand Submission to the Commission in Support of the Re-Approval of the Capital Plan at 8, 23, File No. SR-OCC-2015-02 (Oct. 13, 2017).

Respectfully submitted,

x 

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*Counsel for Petitioner Susquehanna
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CERTIFICATE OF SERVICE

I, Harold S. Reeves, counsel for Petitioner Susquehanna International Group, LLP, hereby certify that on August 24, 2018, I served copies of the attached Letter to the Secretary on Joseph P. Kamnik, general counsel for the Options Clearing Corporation (OCC) by way of Federal Express and filed the original and three copies with the Secretary by way of email and Federal Express at the following addresses:

Joseph Kamnik
Options Clearing Corporation 1
North Wacker Drive, Suite 500
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Counsel for OCC

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
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Dated: August 24, 2018



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EXHIBIT A

OCC Financial Information

	2012	2013	2014	2015	2016	2017	2018E
Gross Clearing Fee Revenues	\$ 193.5	\$ 203.5	\$ 326.4	\$ 349.5	\$ 312.0	\$ 378.1	\$ 463.5
Rebates	\$ 50.1	\$ 47.0	\$ 33.3	\$ 109.4	\$ 51.3	\$ 82.6	\$ 57.7
Net Clearing Fee Revenues	\$ 143.4	\$ 156.5	\$ 293.1	\$ 240.1	\$ 260.7	\$ 295.5	\$ 405.8
Other Revenues	\$ 13.8	\$ 12.6	\$ 12.7	\$ 10.0	\$ 22.3	\$ 64.1	
Total Revenues (with Net Clearing Fees)	\$ 157.2	\$ 169.1	\$ 305.8	\$ 250.1	\$ 283.0	\$ 359.6	
Total Expenses	\$ 152.1	\$ 165.4	\$ 196.7	\$ 217.6	\$ 245.7	\$ 298.1	\$ 348.0
Employee Costs	\$ 78.9	\$ 82.2	\$ 95.7	\$ 94.6	\$ 103.4	\$ 120.2	
Professional Fees	\$ 18.5	\$ 28.5	\$ 44.0	\$ 45.0	\$ 55.0	\$ 83.0	
Pre-Tax Income	\$ 5.1	\$ 3.7	\$ 109.1	\$ 32.5	\$ 37.3	\$ 61.5	\$ 57.7
Provision for Taxes	\$ 1.6	\$ 2.1	\$ 44.8	\$ 10.0	\$ 11.7	\$ 29.0	\$ 11.9
Net Income	\$ 3.5	\$ 1.6	\$ 64.3	\$ 22.5	\$ 25.6	\$ 32.5	\$ 45.8
Dividends				\$ 19.7	\$ 25.6	\$ 32.5	\$ 45.8
Annual Return				13.1%	17.1%	21.7%	30.5%