November 11, 2016

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
1OO F Street, N.E.
Washington, D.C. 20549-1090

Re: (Release No. 34-79028; File No. SR-OCC-2016-012)

Dear Mr. Fields:

Susquehanna International Group, LLP ("SIG") submits this letter in response to the Options Clearing Corporation's ("OCC") above-captioned proposal with the Securities and Exchange Commission ("SEC" or "Commission") to raise transaction fees ("the Proposal").

OCC states that the proposed fee increase is needed to meet the new Business Risk Buffer ("Budget Buffer") OCC adopted in connection with its controversial 2015 capital plan (the "Capital Plan"). The Budget Buffer is a 33% revenue buffer above operating expenses that OCC accumulates from fees throughout the year, which it says it needs to manage business risk and revenue volatility. As OCC has never needed to draw from a budget buffer for any material amount in its 43 year history, the practical outcome expected from such oversized Budget Buffers will be to increase shareholders' equity and (with the remaining balance) make targeted distributions at year-end – with 50% of such balance rebated back to clearing members and the other 50% paid as dividends to OCC's shareholder owners ("the owners")[1].

Thus, under OCC's new Capital Plan, ever-larger Budget Buffers leading to ever-larger increases to shareholders' equity and dividend income for the owners is the new business model at OCC, which should be a matter of great concern to all market participants and the SEC. It should be noted here that the Budget Buffer amount is in addition to the over $250 million of shareholders' equity expected to be held at OCC in

[1] The current OCC ownership is as follows: NYSE (40%) and CBOE, ISE and NASDAQ (20% each). With the recent acquisition of ISE by NASDAQ, the NASDAQ will soon be a 40% owner.

2017. This amount includes the $150 million equity contribution made to OCC last year by the owners, which we expect will generate annual dividends to the owners averaging more than 25% over the next twenty years. In light of these beliefs, and OCC's stated need to collect more revenue for the Budget Buffer, we believe most of the revenue from the proposed fee increase will be used to maintain a bloated budget and thereby unreasonably enrich the owners.

While OCC's 2017 OCC budget will apparently be set at a historically high rate, we expect that the revenue from the proposed fee increase will be used in 2017 to meet commitments for more shareholders' equity and oversized dividends to owners. It is unfortunately the case that as shareholders' equity and dividend amounts grow with the budget, it is the investing public that is shackled with these escalating fees. Although the level of this windfall to the owners is already astounding, it will dramatically compound over coming years. In addition to the more than 25% average yearly dividend expected to be paid on the shareholders' $150 million capital contribution over the next twenty years, shareholder equity has already grown ten-fold within the last few years – from $25 million to approximately $250 million. Unfortunately, these windfalls to the owners are ultimately paid by options investors through higher fees and wider option quotes.

While the OCC owners do not themselves pay the transaction fees that finance the budget, they now benefit tremendously when the budget grows – even if the growth is comprised of needless and wasteful expenses. Given this inherent conflict of interests, and the heavy influence the owners have on the OCC budget process, the SEC should require OCC to disclose the expense projections that OCC has determined will cause the budget shortfall (and associated fee increase) to ensure such expenses are appropriate and prudent. Indeed, when it addressed commentators' concerns about the Capital Plan and its effect on future fee increases, the Commission sought to assuage those concerns by noting that such fee filings would be subjected to Commission review.

Fee Increases & the Budget Buffer

The proposed fee increase, effective December 1, 2016, involves increasing the fee on OCC's primary tier-size group by $0.009 per contract (from $0.041 to $0.05) while also reducing the size of that tier group (from 1,370 contracts to 1,100 contracts). The change will constitute an increase of approximately 20% for that tier group and, all else remaining relatively equal, will have an estimated overall revenue increase for OCC of approximately 17% on an annualized basis.

OCC explained in the fee filing that anticipated revenues are not expected to reach an amount that will safeguard its ability to maintain its Budget Buffer. In the filings for its related Capital Plan, OCC explained that the purpose of the Budget Buffer was to secure sufficient capital to cover unexpected fluctuations in operating expenses, business capital needs and regulatory capital requirements. It added that the Capital Plan included provisions for the allocation of rebates and distributions of excess revenues at

year-end. Finally, OCC has explained that the Budget Buffer was also designed to ensure that money is available for deposit to keep shareholders' equity above its Baseline Capital Requirement. Consequently, in practice, it is expected that most of the excess revenue from the oversized Buffett Buffer is simply converted into shareholders' equity and dividends that are paid to the owners at the end of the year – with an amount equal to the dividend also allocated to clearing members as a rebate.

Although OCC refers to a 25% buffer in its filings, the budget excess is calculated to create a 33% buffer over operating expenses. Specifically, when adopting the current buffer, OCC stated that it would calculate an annual revenue target based on a forward twelve months expense forecast divided by the difference between one and the [Budget Buffer] of 25%, (i.e., OCC divides the expense forecast by .75.) Using 2015 as the example year, dividing OCC's originally forecasted 2015 budget of $234 million by .75 yields $312 million, which would be $78 million above the $234 million budget. The $78 million, of course, equals 33% of the $234 million forecasted budget, which is why we refer to the Budget Buffer in this letter as 33% above operating expenses.

Of course, when OCC claims the Budget Buffer under the Capital Plan is lower on a percentage basis than the percentage before the Capital Plan it does not mention that its claimed percentage difference is only 6% while the operating budget itself is now over 50% larger. Nor does it adequately address increases to its overall annual budget (operating expenses plus Budget Buffer) occurring from the decision to finance much of the capital targets in its Capital Plan through the OCC owners.

As mentioned above, OCC has never needed to draw from a budget buffer for any material amount in its 43 year history. In addition, it is clear that if an extremely unusual circumstance should ever arise that would threaten OCC's ability to clear trades, the operating expenses causing the problem would constitute a small fraction of the money at risk to clearing members. That said, even if the Budget Buffer was much smaller or non-existent, clearing members would – without exception – take the steps necessary to safeguard the clearing of trades needed to manage their option positions at OCC. This would happen even if the required amount were to be many times greater than the annual buffer amount collected by OCC.

Another reason for skepticism with fee increases tied to the Budget Buffer is that shortfalls in revenue that develop at OCC are typically dealt with by way of intra-year fee increases – just as the present fee increase has been proposed intra-year in light of a small decline in annual volume. In fact, there have been several fee change developments at OCC since the time in 2014 when OCC first began raising the issue of increased expenses. In net, these fee changes have raised OCC fees by over 70%. Indeed, contrary to OCC's repeated statements that the owners' equity contribution under the Capital Plan will result in reduced fees, transaction fees are basically the same as they were after the large increase of 2014. There have been several important developments in this regard, as follows:

- In March, 2014 OCC announced that it would raise fees effective April 1, 2014 by more than 70% overall due to increased operating expenses resulting from "current and anticipated regulatory expenses."
- In January, 2015, OCC announced its highly controversial Capital Plan under which OCC would substantially increase its capital base by, among other things, taking $150 million equity investment from its owners with the stated intention of lowering fees going forward.
- In March 2015, SIG and others vehemently objected to the Capital Plan[2], arguing, among other things, that it changed OCC from a non-profit public utility to a for profit monopoly while also creating the inherent conflict that the owners receive larger dividends as OCC's budget increases; which was all unnecessary as required capital increases could instead be funded by allowing the April 1, 2014 fee increase to remain in place until such capital was raised.
- In early 2016, promptly after the Court of Appeals for the D.C. Circuit denied a motion restricting OCC from implementing its Capital Plan, OCC distributed in excess of $160 million in the form of rebates and dividends.
- On March 1, 2016, OCC reduced fees by approximately 19%.
- On May 1, 2016, OCC eliminated two lower-rate brackets ($0.032 per contract when trading between 501 and 1,000 contracts, and $0.024 per contract when trading 1,001 to 2,000 contracts), thus effectively raising the rates on trades of 501-1,371 contracts to $0.041, and setting the rate at $55 per trade on all contracts for trades above that range.
- On October 3, 2016, OCC's filed the present fee proposal to increase fees by an amount slightly below the 19% reduction of March 2016, essentially unwinding that fee reduction and reverting its fee structure back to the April 1, 2014, increase that netted a 70% overall fee increase.

Most notable of the recent fee increases, the $0.05 per contract primary tier fee of April, 2014 replaced a $0.03 per contract fee that had been in place since 2008. By comparing the higher revenue for that tier group (the $0.05 period and the $0.041 period) with what would have since then been charged, at the previous $0.03 rate, it appears that OCC increased its overall revenue by more than $300 million since the 2014 increase.

The amount of windfall money OCC is in the process of accumulating for its owners under its Capital Plan is staggering. Using current OCC volume and fees for 2017, we estimate shareholders' equity will be approximately $260 million to begin the year and that another approximately $80 million will probably then be collected for the

[2] BATS Global Markets, Inc., BOX Options Exchange LLC, KCG Holdings, Inc., Miami International Securities Exchange, LLC, and Susquehanna International Group, LLP (collectively "Petitioners") each filed petitions for review of the Approval Order by the SEC for OCC's Capital Plan, which the SEC approved by delegated authority on March 6, 2015. The matter is now the subject of a civil suit by the Petitioners in the D.C. Circuit Court (Susquehanna International Group et al v. SEC, case number 16-1061, U.S. Court of Appeals for the District of Columbia Circuit).

Budget Buffer during the year. At the same time, OCC's operating expense budget (not including the Budget Buffer) will climb to over $230 million for 2017, which means that OCC's budget will have grown by over 50% since 2012. Thus, a higher OCC budget will create a higher Budget Buffer, which in turn will create larger year-end distributions to the owners in the form of increased shareholders' equity and dividends. The current fee proposal will feed these bloated benefits to the owners.

Prior to the Capital Plan, budget growth at OCC was mostly tied to increased OCC volume and new businesses. While volume is now nearly flat, there is the inexplicable matter of hundreds of new OCC employees recently hired or anticipated to be hired over 2017, and a new office complex to house its much expanded staff. There does not appear to be any new business initiatives that can fully explain OCC's current ~17% fee increase. Yet, the owners will nonetheless continue to receive oversized dividends and contributions to shareholders' equity through these bigger budgets.

Accumulating an additional $300 million in revenue by way of the Capital Plan in less than three years is staggering, especially in light of the fact that OCC's budget in 2013 was only $165 million. It is even more staggering when this growth is compared to budgets in place during that six year period where the $0.03 per contract fee was in place, as shown in "Table 1" below. To frame the discussion on distribution amounts, Table 1 contains estimates for 2016 and 2017 that assume the current fee increase will be in place through 2017 and that the budget growth will be at the approximate 7% growth level experienced over recent decades. Also, Table 1 below assumes OCC transaction volume in 2017 will be the same as 2016:

Table 1

	2008	2009	2010	2011	2012	2013	2014	2015	2016* estimates	2017** Estimates
Revenue +	175m	192m	196m	229m	207m	216m	339m	359m	320m	340m
Ops Expenses (not including the Buffer)	111m	134m	138m	145m	152m	165m	196m	217m	232m	246m
Refund	64m	57m	38m	79m	50m	47m	33m	109m	30m	40m
Owner's Div	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.7m	30m	40m
Year-end Shareholders' Equity Account	12m	16m	20m	12m	11m	25m	97m	247m	260m	275m
OCC Volume	3.5b	3.6b	3.9b	4.6b	4b	4.1b	4.3b	4.2b	4.1b	4.1b

Table 1 numbers for years other than 2016 and 2017 have been drawn from annual reports and other publicly available document, but may involve rounding or approximations.

+ Revenue numbers are pre-refunds and pre-dividends/capital to Shareholder Equity

* Estimated numbers for 2016 and 2017 are projections that may differ significantly from actual.

** Estimated numbers for 2017 use 2016 OCC volume data, a 7% budget growth, and the assumption that the proposed fee schedule is maintained throughout the year.

Using the Capital Plan to Enrich the Owners

It is useful to note that the present proposal for higher fees refers to OCC's business risk and does not pertain to position risk with OCC cleared products. To protect against the risk of position defaults, OCC maintains stress-tested margin requirements and an additional clearing fund currently over $12 billion, which is funded by clearing members. We distinguish between these two different kinds of risk, as market participants can mistakenly assume OCC fee increases relate to controlling position risk. OCC fosters this misconception by encapsulating fee increase proposals to fund its Budget Buffer as capital requests under its Capital Plan; while the business risk scenarios upon which the Budget Buffer is predicated are operational and business-expense related.

When OCC proposed the Capital Plan, and claimed the need to promptly raise shareholders' equity from $25 million to $247 million, market participants questioned why OCC sought to achieve this target through an expensive capital contribution from its owners rather than by simply leaving the April 1, 2014 fee schedule in place until adequate capital levels were reached – whereupon it could revert to pre-April 2014 fees. Indeed, by the end of 2014, OCC had in excess of $97 million of shareholders' equity and by the end of 2015 it had essentially reached the desired $247 million. Rather than use the over $247 million to satisfy its need for in-house reserve capital, OCC instead took most of the excess revenue and distributed it in February 2016 as rebates and dividends, leaving itself well under its self-imposed minimum. OCC then set in motion the $150 million equity contribution from the owners, complete with the provision for tying dividend rates to the Budget Buffer, to replenish the money that was just distributed. This maneuver made it abundantly clear that OCC was unwavering in its commitment to create a financial situation most favorable to its owners, regardless of added expenses to market participants.

We expect that OCC will respond to these concerns with another promise that fees will be reduced when transaction volume rises. Yet, while OCC's 2016 volume is currently down approximately 2% for 2016, OCC operating expenses nonetheless appear to be growing substantially. This means, of course, the Budget Buffer will continue to grow, as will shareholders' equity and dividend payments to the owners for years to come – even while all other market participants suffer through these fee increases. This inclination towards higher budgets makes it very unlikely that any long-term, significant fee reductions will be adopted at OCC under the Capital Plan.

Conclusion

The Budget Buffer provision of the Capital Plan primarily operates in a fashion favorable to the OCC owners at the expense of the millions of options investors and traders who rely on OCC to not use its monopoly status to gouge them with unnecessarily high fees. The proposed fee increase fails in this regard.

Since the Budget Buffer is set as a percentage of OCC's calculated budget expenses, the reasonability of the fee increase to finance the same is conditioned on the reasonability of the underlying budget. Accordingly, the Commission should review the OCC budget in order to determine independently whether it is reasonable and serves as a sound basis for justifying the proposed fee increase.

By foregoing the path of growing revenue through the over 70% fee increase of 2014 and instead raising the capital from the owners, OCC created a conflict of interests with its Board Member owners that makes each new fee increase proposal subject to added scrutiny. The disconcerting fact behind all new OCC fee increases under its new Capital Plan is that – even though OCC operates as a monopoly for all U.S. options exchanges – OCC now conducts its operations under a financial plan where its owners directly benefit when its budget is inflated, even by needless expenses. And there is no doubt that OCC's owners have a significant say in developing and managing OCC's budget. This conflict should not be confused with a conflict that is merely an unexpected happenchance turn of events that creates a temptation that those with budget control powers must overcome. Much to the contrary, this conflict was created by the Capital Plan that was orchestrated by the owners themselves and this fact should not be ignored when considering the proposed OCC fee increase.

It is clear from this fee proposal, as well as other recent actions by OCC, that OCC expects funds for the windfall payments to its owners will come from market participants in the form of higher budgets that require higher fees. Although OCC asserted that the $150 million equity infusion was designed to allow OCC to meet new regulatory requirements without imposing a great burden on market participants in the form of higher fees, the current fee proposal is stark evidence that the Capital Plan is *exposing* market participants to years of excessive fees – rather than saving them from such fees. Thus, the SEC should review this fee increase in the context of the promises OCC made that fees would be reduced as a result of the capital contribution from the owners that was supposed to relieve the short term pressure of raising rates to cover new regulatory requirements on OCC's horizon. Instead, what we now have is OCC imposing an exceedingly high buffer over an inflated budget that generate higher profits for favored market participants, which is both imprudent and a cause for regulatory concern.

Given the above, it appears that the current fee proposal is a symptom of the ills brought about by the inherent flaws with the Capital Plan that have created: dividend and capital windfalls to the owners, conflicts of interests by incentivizing owners to grow the budget and, finally, unnecessary fees to pay for the windfall profits to the owners. Even though conflicted when participating in budget decisions at OCC, the owners nonetheless continue to use their sway (as owners on OCC's Board of Governors) in important budget considerations. On this point, it is still difficult for us to fathom that the only group of option participants in the world that benefit from an inflated and wasteful OCC budget are the owners themselves. The SEC should review this arrangement for the sake of the market participants that are required to pay higher fees to an organization that operates as a monopoly in clearing derivatives while being managed by owners so highly conflicted.

It should always be remembered that transaction fees are infused into the expense column used by options market makers when calculating quotes. This means that, ultimately, fee increases are largely paid by investors.

Please feel free to contact the undersigned for any questions and thank you for this opportunity to respond.

Sincerely,

Gerald D. O'Connell
SIG Chief Compliance Officer