

Merrill Lynch Professional Clearing Corp.

July 6, 2018

Brent J. Fields

Secretary

Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549-1090

**Re: The Options Clearing Corporation Notice of Filing of Proposed Rule Change Related to The Options Clearing Corporation's Stress Testing and Clearing Fund Methodology**

**Rel. No. 34-83406; File No. SR-OCC-2018-008**

Dear Mr. Fields:

Merrill Lynch Professional Clearing Corp. ("MLPRO") submits this letter in support of the Options Clearing Corporation ("OCC") Rule Filing SR-OCC-2018-008 ("Rule Filing"). MLPRO is an OCC Member and the largest clearer of U.S. listed options for broker-dealer market makers. We request the Securities and Exchange Commission ("Commission") approve the Rule Filing as soon as possible. We believe the proposed changes to the OCC's stress testing and Clearing Fund methodology will improve risk management, enhance the OCC's overall resiliency and increase liquidity in the listed options market.

The Rule Filing remediates several of our concerns. We believe the OCC's current stress testing process and assumptions do not adequately measure the risk. Members' and market participants' risk reduction activities have not been properly reflected in the existing stress model. In addition, we believe the current Clearing Fund methodology is pro-cyclical. Members have been required to increase contributions during stressed markets and the contribution requirements were overstated due to stress model shortcomings. We believe Members and market participants would benefit from a more appropriately sized Clearing Fund, funded by member contributions, to cover potential exposure during market cycles. The Rule Filing addresses these issues by:

- 1) Adopting risk tolerance and stress testing assumptions that are developed from extreme, but plausible scenarios;
- 2) Calibrating individual equity price movements to the price shock for the applicable equity index;
- 3) Establishing a new model to measure the adequacy of the Clearing Fund daily and to address potential default scenarios more effectively with adoption of Cover 2.
- 4) Increasing the "total risk" weighting in the allocation process for Clearing Fund contributions. The OCC is appropriately proposing to reduce contributions from Members with large open interest positions, but relatively small margin requirements.

We believe these changes create a more transparent and predictable model for Member firms and the market participants that provide liquidity to the market. Overall, we believe the Rule Filing is consistent with the Commission's goal to maintain a healthy listed options market structure.

MLPRO recommends the Commission approve the Rule Filing and we thank the Commission for its time and consideration in this important matter.

Respectfully,



Matthew R. Scott

President

Merrill Lynch Professional Clearing Corp.