



Craig S. Donohue

EDITORS' NOTE Prior to joining OCC in January of 2014, Craig Donohue spent more than two decades in global financial markets, having most recently served as Chief Executive Officer of CME Group from January 2004 until May 2012. In 2010, Donohue was selected as one of the 50 best-performing CEOs in the world by the Harvard Business Review. He holds a Masters of Management degree from Northwestern University's Kellogg Graduate School of Management, a Masters of Law degree in Financial Services Regulation from IIT Chicago-Kent College of Law, a Juris Doctor degree from The John Marshall Law School, and a Bachelor of Arts degree in political science and history from Drake University.

COMPANY BRIEF OCC (theooc.com) is the world's largest equity derivatives clearing organization. Founded in 1973, OCC operates under the jurisdiction of both the U.S. Securities and Exchange Commission as a Registered Clearing Agency and the U.S. Commodity Futures Trading Commission as a Derivatives Clearing Organization. OCC now provides central counterparty clearing and settlement services to 16 exchanges and trading platforms for options, financial futures, security futures, and securities lending transactions.

What is the history of OCC and, as you took over, was there a need to transform it to adapt to the future?

The fact that OCC is one of the world's largest clearinghouses means it is important to the functioning of our financial markets and, in some sense, the broader economy. We like to think of ourselves as the foundation for secure markets. We are the only clearinghouse that clears equity derivatives in the United States that are traded on the 12 options exchanges that exist.

OCC had a great track record of success for its first 40 years as the options markets began and became more mature, and there was tremendous product innovation during that time.

By the time I thought of coming to OCC, things had fundamentally changed. For the most

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An Interview with
Craig S. Donohue, Executive Chairman, OCC

part, that change was Dodd-Frank and OCC's designation as a Systemically Important Financial Market Utility.

OCC was a solid organization operationally and in terms of the quality of our risk management standards. However, it had fallen behind the curve in terms of adjusting to new regulatory requirements, and there was a much-heightened expectation on the part of regulators and market participants, particularly as it related to capital, financial, and risk management-related resiliency.

We also were in the throes of tremendous cultural change. The prior chairman and CEO had been here for nearly the entire history of OCC and he was retiring. Many of the senior executives had been of a similar tenure and also were retiring. We also had a lot of gaps within the organization.

I viewed OCC as a transformation opportunity. My areas of focus were, and still are, recapitalizing OCC and strengthening our resiliency, accelerating the change process to adapt to a very different regulatory environment, and enhancing our human capital at the leadership team level. I also looked to reshape OCC's culture to move us back to our roots and heritage as a very agile, strategic, and innovative organization.

Is brand awareness important for OCC?

Brand is critical. In building a brand, a firm and its employees are managing who they are, what they do, and what they mean to the world and the customers they serve. This tends to make them a much higher performing company because they have to fulfill their brand's promise and attributes.

I want our external stakeholders to understand why we're unique, and in what respects we perform better than our peers who do similar things to what we do.

Brand is important to help market participants feel the level of security we want them to feel when they make transactions in the listed options markets.

Do you feel that the changes made since the recession have been effective and where do we stand today on regulation?

I'm very pro-regulation. I think it's one of our distinct competitive advantages as a country and certainly in terms of the financial services markets. The U.S. has an unbelievable track record of success in financial services. We have the largest, most expansive, sophisticated, innovative, deeply liquid, and best regulated markets anywhere in the world, by far.

Much of that is attributable to the so-called rule of law. Beyond that, it's the quality of regulation and the fact that regulation continues to advance and try to improve from the experiences we have in financial markets.

However, I do see the potential for overregulation and for people to think that we can solve future financial crises in advance.

Many of the things that have been done have been helpful. The policy decision to shift more over-the-counter derivatives transactions to clearinghouses is fundamentally sound and right.

The centrally cleared listed options markets have performed very well during times of market stress and, in some ways, the OTC market has not similarly risen to the challenge.

It was clear during the last financial crisis that the lack of a centralized marketplace and a centralized clearing solution for swaps made it difficult for people to trust trading and extending credit in the swaps market. That precipitated many of the problems in the marketplace, even though the fundamental causes weren't the derivatives per se.

This decision created more of a focus on central counterparty clearing organizations because people realized they tend to work, so they wanted to put more on them. They also said that it's clear to us that they're systemically important and that shifting more of the OTC market to clearinghouses is probably concentrating more risk in clearinghouses.

That's all right because, at OCC, we're up to those challenges. The nature of central counterparty clearing mechanisms is such that we will improve the resiliency of the overall marketplace. We will reduce risk as we see more swaps migrating toward clearinghouses.

Do you need to set benchmarks to track impact and at what point will the transformation at OCC be complete?

Objective measurements and metrics, and determining what our results are versus the results of our peer organizations are critical in trying to transform and advance an organization. One thing we typically find is an internal belief system, which may be reflective of an internal self-view that is subjective. I try to challenge our people to be more externally focused, more aware of what everyone else is doing and how they're doing it, and willing to be honest and critical in our own self-assessment of where we are as an organization. ●