

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73980; File No. SR-ICC-2014-24)

January 5, 2015

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Revise the ICC Risk Management Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 22, 2014, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by ICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed rule change is to revise the ICC Risk Management Framework to incorporate certain risk model enhancements. These revisions do not require any changes to the ICC Clearing Rules (“Rules”).

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICC has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of these statements.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

ICC proposes revising the ICC Risk Management Framework to incorporate risk model enhancements related to Recovery Rate Sensitivity Requirements (“RRSR”), anti-procyclicality, and ICC’s Guaranty Fund (“GF”) allocation methodology. ICC also proposes revisions which are intended to remove obsolete references and ensure consistency. ICC believes such revisions will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions for which it is responsible. The proposed revisions are described in detail as follows.

ICC proposes revising its Risk Management Framework to incorporate risk model parameter estimation enhancements related to the RRSR computations. Under the current ICC Risk Management Framework, recovery rate stress scenarios are explicitly incorporated in the RRSR computations and for Jump-to-Default (“JTD”) considerations. The quantity RRSR is designed to capture fluctuations due to potential changes of the market expected recovery rates. In calculating the RRSR, all instruments belonging to a Risk Factor (“RF”) or Risk Sub-Factor (“RSF”) are subjected to Recovery Rate (“RR”) stress scenarios to obtain resulting Profit/Loss (“P/L”) responses, and the worst scenario response is chosen for the estimation of the RF/RSF RRSR. The JTD analysis is designed to capture the unexpected potential losses associated with credit events for assumed SN-specific set of RR stress values. The JTD responses are determined by using minimum and maximum RR levels. Currently, the RRSR and JTD computations use the same RR stress levels.

ICC proposes separating the RR stress levels for these two computations in order to introduce more dynamic and appropriate estimations of the RR stress levels for RRSR purposes. The RR levels for RRSR purposes will reflect a 5-day 99% Expected Shortfall (“ES”) equivalent

risk measure associated with RR fluctuations. The proposal will also eliminate index RRSR, as index RRs are not subject to market uncertainty, but rather driven by market conventions. The dynamic feature of the RR stress level estimations is achieved by analyzing historical time series of RRs in order to calibrate a statistical model with a time varying volatility. Under this approach, the RRSR will capture the exposure to RR fluctuations over a 5-day risk horizon described by 99% ES equivalent risk measure. The proposed enhancements provide a robust and quantitative driven approach for establishing the RR stress scenarios.

Additionally, ICC proposes revising its Risk Management Framework to incorporate a portfolio level anti-procyclicality analysis that features price changes observed during and immediately after the Lehman Brothers (“LB”) default. In order to achieve an anti-procyclicality of Spread Response requirements, ICC proposes considerations of explicit price scenarios derived from the greatest price decrease and increase during and immediately after the LB default. These scenarios capture the default of a major participant in the credit market and the market response to the event. The introduced scenarios are defined in price space to maintain the stress severity during periods of low credit spread levels (high price) when the Spread Response requirements, computed under the current framework, are expected to be lower.

Further, the price scenarios, derived from the greatest price decrease and increase during and immediately after the LB default, are explicitly incorporated into the GF sizing to ensure an anti-procyclical GF size behavior. This enhancement also addresses a regulatory requirement as described in Article 30 of the Regulatory Technical Standards,<sup>3</sup> European Market Infrastructure Regulations (“EMIR”).

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<sup>3</sup> Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 Supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the

Furthermore, ICC proposes enhancements to its GF allocation methodology. Currently, the GF allocations reflect a risk “silo” approach, i.e. separate GF “silo” components reflecting the Clearing Participants’ (“CPs”) own “silo” riskiness and to the GF “silo” size. Under the current approach, GF allocations can significantly fluctuate in response to position changes in the portfolios of the CPs that drive the GF size, and in response to distribution of the total GF size across the GF “silos.” ICC proposes modifying its methodology, so that the GF allocations reflect the CPs’ total uncollateralized losses. Under the proposed approach, the GF allocations are independent of the distribution of the uncollateralized losses across the GF “silos.” The new GF allocation methodology reflects an improved and more stable approach which allows for easier attributions of GF contributions to individual CP/client portfolios. Additionally, ICC added clarifying language regarding how the GF computations are performed with explicit currency dependent expressions.

ICC has also made some non-substantive changes to the Risk Management Framework to address CFTC recommendations. Specifically, ICC proposes amending the Risk Management Framework to reflect ICC’s current approach towards portfolio diversification. As such, ICC proposes unifying diversification and hedge thresholds, and explicitly setting both to be equal to the lowest estimated sector Kendall Tau correlation coefficient. Additionally, ICC clarified language regarding how ICC meets its liquidity requirements.

Additionally, ICC has made non-substantive changes throughout the framework to correct obsolete references. ICC removed language stating that the Chief Risk Officer is a dual employee of both ICC and its sister company, The Clearing Corporation. Similarly, ICC removed language stating that The Clearing Corporation is the provider of risk management

services to ICC. ICC has removed references to the “U.K. Financial Services Authority” and replaced with reference to the “U.K. Prudential Regulatory Authority.” “The European Securities and Markets Authority” was added to the sample list of competent authorities for capital adequacy regulation listed in the framework.

ICC has also made non-substantive changes throughout the Risk Management Framework to ensure consistency. ICC updated the mission statement contained within the document to be consistent with ICC’s Board-approved mission statement. Also, ICC has modified the frequency by which the Risk Department monitors various risk metrics from a quarterly basis to a monthly basis to reflect actual business practices.

Section 17A(b)(3)(F) of the Act<sup>4</sup> requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to the extent applicable, derivative agreements, contracts and transactions and to comply with the provisions of the Act and the rules and regulations thereunder. ICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC, in particular, to Section 17(A)(b)(3)(F),<sup>5</sup> because ICC believes that the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, as the proposed risk model revisions enhance risk policies and are expected to impose more conservative initial margin requirements, which would enhance the financial resources available to ICC and thereby facilitate its ability to promptly and accurately clear and settle its cleared CDS contracts. In addition, the proposed revisions are consistent with the relevant requirements

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<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F)

<sup>5</sup> Id.

of Rule 17Ad-22.<sup>6</sup> In particular, the amendments to the Risk Management Framework will enhance the financial resources available to the clearing house by imposing a more conservative initial margin requirement, and are therefore reasonably designed to meet the margin and financial resource requirements of Rule 17Ad-22(b)(2-3).<sup>7</sup> Additionally, the amendments to the Risk Management Framework related to ICC's GF allocation methodology further ensure ICC maintains sufficient financial resources consistent with the requirements of Rule 17Ad-22(b)(3).<sup>8</sup> As such, the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the meaning of Section 17A(b)(3)(F)<sup>9</sup> of the Act.

B. Self-Regulatory Organization's Statement on Burden on Competition

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition. The risk model enhancements apply uniformly across all market participants. Therefore, ICC does not believe the proposed rule change imposes any burden on competition that is inappropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited or received. ICC will notify the Commission of any written comments received by ICC.

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<sup>6</sup> 17 CFR 240.17Ad-22.

<sup>7</sup> 17 CFR 240.17Ad-22(b)(2-3).

<sup>8</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ICC-2014-24 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICC-2014-24. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies

of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Credit and on ICE Clear Credit's website at <https://www.theice.com/clear-credit/regulation>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2014-24 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Brent J. Fields  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).