

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74449; File No. SR-ICC-2015-001)

March 6, 2015

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change to Revise ICC End-of-Day Price Discovery Policies and Procedures

I. Introduction

On January 5, 2015 ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-ICC-2015-001 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on January 21, 2015.³ The Commission did not receive any comments. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

ICC proposed revising its End-of-Day Price Discovery Policies and Procedures to incorporate enhancements to its price discovery process. ICC currently utilizes a “cross and lock” algorithm as part of its price discovery process. Under this algorithm, standardized bids and offers derived from Clearing Participant (“CP”) submissions are matched by sorting them from highest to lowest and lowest to highest levels, respectively. This sorting process pairs the CP submitting the highest bid price with the CP submitting the lowest offer price, the CP submitting the second highest bid price with the CP submitting the second-lowest offer price,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-74053 (Jan. 14, 2015), 80 FR 2985 (January 21, 2015) (File No. SR-ICC-2015-001).

and so on. The algorithm then identifies crossed and/or locked markets. Crossed markets are the CP pairs generated by the sorting and ranking process for which the bid price of one CP is above the offer price of the matched CP. The algorithm identifies locked markets, where the bid and the offer are equal, in a similar fashion.

Whenever there are crossed and/or locked matched markets, the algorithm applies a set of rules designed to identify standardized submissions that are “obvious errors.” The algorithm sets a high bid threshold equal to the preliminary end-of-day (“EOD”) level plus one EOD bid offer width (“BOW”), and a low offer threshold equal to the preliminary EOD level minus one EOD BOW. The algorithm considers a CP’s standardized submission to be an “obvious error” if the bid is higher than the high bid threshold, or the offer is lower than the low offer threshold.

CP pairs identified by the algorithm as crossed or locked markets are required from time to time, under the End-of-Day Price Discovery Policies and Procedures, to enter into cleared trades with each other as part of the ICC EOD price discovery process (“Firm Trade”). Currently, ICC excludes standardized submissions it identifies as obvious errors from Firm Trades and does not use these submissions in its determination of published EOD levels.

ICC has proposed to include all standardized submissions, including those classified as obvious errors, in the process of determining Firm Trades. Further, ICC asserts that it will effectively execute its current EOD algorithm twice, initially in the same way it does today, by eliminating obvious errors, to generate the final EOD levels, and again, without excluding obvious errors, to generate Firm Trades and reversing transactions.

To limit the potential exposure created through Firm Trades that include a bid or offer from an obvious error submission, ICC proposes to adjust trade prices, where appropriate, to fall

within a predefined band on either side of the EOD price such that the potential profit or loss (“P/L”) realized by unwinding the trade at the EOD level is capped.

To prevent CPs from receiving Firm Trades with large P/L impact in Index instruments that are less actively traded, and therefore more difficult and/or more expensive to manage the associated risk, ICC proposes to have the ability to automatically generate reversing transactions at the EOD level for specific Index instruments (i.e., for specific index risk sub-factors as defined by specific combinations of index/sub-index and series) based on liquidity. Currently, reversing transactions are only available for Single Name instruments. ICC represents that there are no changes to ICC’s Clearing Rules as a result of these changes.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁴ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such self-regulatory organization. Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible and, in general, to protect investors and the public interest.

⁴ 15 U.S.C. 78s(b)(2)(C).

⁵ 15 U.S.C. 78q-1(b)(3)(F).

The Commission finds that ICC's proposed revisions to its End-of-Day Price Discovery Policies and Procedures is consistent with the requirements of Section 17A of the Act⁶ and regulations thereunder applicable to it, including the standards under Rule 17Ad-22.⁷ The proposed rule change is designed to enhance ICC's price discovery process by including all price submissions (including those classified as obvious errors) in the process of determining Firm Trades, thereby reducing price submissions that may be classified as obvious errors. In addition, the proposed rule change would adjust the trading prices of Firm Trades that include a bid or offer classified as an obvious error to fall within a predefined range on either side of the EOD price, thereby limiting CPs' potential P/L exposure to obvious errors from the risk management perspective, while holding them accountable for their price submissions. Finally, the proposed rule change would assist CPs in unwinding Firm Trades in certain index products by generating reversing trades at the EOD level based on liquidity. The Commission believes that the proposal is therefore designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC, consistent with Section 17A(b)(3)(F) of the Act.⁸

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁹ and the rules and regulations thereunder.

⁶ 15 U.S.C. 78q-1.

⁷ 17 CFR 240.17Ad-22.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-ICC-2015-001) be, and hereby is, approved.¹¹

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Jill M. Peterson
Assistant Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹² 17 CFR 200.30-3(a)(12).