

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72556; File No. SR-ICC-2014-08)

July 8, 2014

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Related to ICC's Authority to Use Guaranty Fund and House Initial Margin as an Internal Liquidity Resource

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 June 24, 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 formalize ICC's Liquidity Risk Management Framework and to clarify ICC's authority to use, and to provide details as to how ICC would use, Guaranty Fund and House Initial Margin as an internal liquidity resource.

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

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

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

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.

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

ICC proposes to formalize a comprehensive Liquidity Risk Management Framework, including its comprehensive liquidity monitoring program, that describes ICC's liquidity resources as well as the methodology for testing the sufficiency of these resources. In addition, ICC proposes changes to ICC Clearing Rules 402 and 802 to clarify ICC's authority to use, and provide details as to how ICC would use, Guaranty Fund and House Initial Margin as an internal liquidity resource.

ICC's Liquidity Risk Management Framework includes a discussion of all resources available to ICC and the order ICC would use these resources if necessary. Additionally, the Liquidity Risk Management Framework contains details about ICC's comprehensive liquidity testing.

Under the Liquidity Risk Management Framework, ICC will use all available resources to meet its liquidity needs when managing one or more Clearing Participant defaults. The liquidity waterfall defines the order, to the extent practicable, that ICC would use its available liquidity resources ("ALR") to meet its currency-specific cash payment obligations. ALR consist of the available deposits currently in cash of the required denomination, and the cash equivalent of the available deposits in collateral types that ICC can convert to cash, in the required currency of denomination, rapidly enough to meet the relevant, currency-specific payout deadlines. The liquidity waterfall classifies ALR on any given day into four levels. Level One includes the House Initial Margin and Guaranty Fund cash deposits of the defaulting Clearing Participant. Level

Two includes Guaranty Fund cash deposits of: (i) ICC; and (ii) non-defaulting Clearing Participants. Level Three includes House Initial Margin cash deposits of the non-defaulting Clearing Participants. Level Four includes ICC's committed credit facility to access additional cash, and contemplates the establishment of other committed facilities to convert U.S. Treasuries to USD cash. The Liquidity Risk Management Framework also describes the methodology used by ICC to estimate its minimum day-of-default ALR based on its liquidity risk management model.

ICC's Liquidity Risk Management Framework includes two kinds of testing: a historical analysis based on back testing considerations, and a forward-looking analysis based on stress testing. In the historical analysis based on back testing considerations, ICC uses the currency-specific historical profit/loss associated with cleared portfolios to explore the level of liquid resources required under historical market conditions. In the forward-looking analysis based on stress testing, ICC explores the required level of liquidity resources in forward-looking market conditions by applying a number of liquidity stress scenarios to determine the currency-specific hypothetical profits or losses for each Clearing Participant.

ICC's Liquidity Risk Management Framework provides for the governance of ICC's liquidity testing, specifically the performance frequency of various testing and the subsequent analysis and reporting of the results. The Liquidity Risk Management Framework details the required governance for amending the liquidity program as well as the procedure for additional risk measures to be taken, as necessary, based upon testing results.

Currently, under the ICC Rules, ICC has broad authority to use and invest cash, securities, and other property held in the Guaranty Fund or as Initial Margin. In order to provide clarity and transparency in the ICC Rules regarding the use of House Initial Margin and Guaranty Fund assets as a liquidity resource, ICC is proposing to adopt ICC Rules 402(j) and 802(f)(iv).

New Rule 402(j) relates to the use of a Clearing Participant House Initial Margin as a liquidity resource. Rule 402(j) clarifies that ICC may generally, in connection with a Clearing Participant default, use any Clearing Participant's cash, securities or other property (whether or not such Clearing Participant is in default) constituting Initial Margin for its House account from time to time to support liquidity arrangements (including borrowing, repurchase transactions, exchange of Initial Margin for other assets or similar transactions, under which equivalent value is provided for such Initial Margin and such equivalent value will be held as Initial Margin and used or applied by ICC solely for the purposes for which Initial Margin in the House Account may be used) relating to payment obligations of ICC, in a manner consistent with ICC's liquidity policies and applicable law. ICC may, in connection with a Participant default, (i) exchange House Initial Margin held in the form of cash for securities of equivalent value and/or (ii) exchange House Initial Margin held in the form of cash in one currency for cash of equivalent value in a different currency.

New Rule 802(f)(iv) provides additional clarity and transparency regarding ICC's use of Guaranty Fund assets as a liquidity resource. ICC currently has broad rights to use Guaranty Fund assets under Chapter 8 of the ICC Rulebook (specifically Rules 801 & 802). Proposed Rule 802(f)(iv) provides transparency related to the exercise of such

authority by the clearing house. Rule 802(f)(iv) will provide clarity and transparency regarding ICC's authority to pledge assets in the guaranty fund to secure loans made to the clearing house, including for purposes of default management or to transfer such assets to counterparties under repurchase transactions or similar transactions on terms and conditions deemed necessary or advisable by ICC (including the collateralization thereof) in its sole discretion. Under Rule 802(f)(iv), the proceeds of such borrowings could be used for the same purposes for which guaranty fund assets are authorized to be used under current ICC Rules. Proposed Rule 802(f)(iv) provides that ICC may in connection with a Clearing Participant default (A) exchange cash held in the Guaranty Fund for securities of equivalent value and/or (B) exchange cash in one currency for cash of equivalent value in a different currency, in each case on such terms (including, if applicable, the relevant duration of any such exchange) as ICC may determine in accordance with its liquidity policies and procedures.

Section 17A(b)(3)(F) of the Act<sup>3</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 changes are 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>4</sup>, because ICC believes that the proposed rule changes will assure the prompt and accurate clearance and settlement of securities

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

<sup>4</sup> Id.

transactions, derivatives agreements, contracts, and transactions. ICC's Liquidity Risk Management Framework describes ICC's liquidity resources as well as the methodology for testing the sufficiency of these resources. The proposed changes to the ICC Rules clarify ICC's authority to use, and provide details as to how ICC would use, Guaranty Fund and House Initial Margin as an internal liquidity resource. ICC believes the proposed revisions provide clarity and transparency in the ICC Rules, consistent with the ICC Liquidity Risk Management Framework regarding the use of House Initial Margin and Guaranty Fund assets as a liquidity resource. ICC believes clarity and transparency in its Rules is of value to the market in order to provide a comprehensive understanding of ICC's available liquidity resources and default management procedures related to liquidity. In addition, if needed, the available liquidity will allow ICC to meet its liquidity needs when managing one or more Clearing Participant defaults. As such, the proposed rule changes are 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>5</sup> of the Act.

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

ICC does not believe the proposed rule changes would have any impact, or impose any burden, on competition. The clarification of ICC's authority to use Guaranty Fund and House Initial Margin as an internal liquidity resource applies uniformly across all market participants. Therefore, ICC does not believe the proposed rule changes impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.

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<sup>5</sup> Id.

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.

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-2014-08 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-2014-08. 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, N.E., Washington, D.C. 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/notices/Notices.shtml?regulatoryFilings>.



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-2014-08 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>6</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).