

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75887; File No. SR-ICC-2015-009)

September 10, 2015

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Amendments No. 1 and 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendments No. 1 and 2, to Revise the ICC Risk Management Framework

I. Introduction

On May 28, 2015, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to make revisions to the ICC Risk Management Framework (SR-ICC-2015-009). The proposed rule change was published for comment in the Federal Register on June 12, 2015.³ The Commission did not receive comments on the proposed rule change. On July 27, 2015, the Commission extended the time period in which to either approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change to September 10, 2015.⁴ On September 1, 2015, ICC filed Amendment No. 1 to the proposed rule change. On September 8, 2015, ICC filed Amendment No. 2 to the proposed rule change. As discussed below, Amendments No. 1 and 2 are intended to provide further clarification to the Initial Rule Filing. The Commission is publishing this notice to solicit comments on Amendments No. 1 and 2 from interested persons and is approving the proposed rule change, as modified by Amendments No. 1 and 2, on an accelerated basis.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-75119 (Jun. 8, 2015), 80 FR 33573 (Jun. 12, 2015) (SR-ICC-2015-009) (hereinafter referred to as the “Initial Rule Filing”).

⁴ Securities Exchange Act Release No. 34-75529 (Jul. 27, 2015), 80 FR 45688 (Jul. 31, 2015) (SR-ICC-2015-009).

II. Description of the Proposed Rule Change

A. Description of the Initial Rule Filing

In the Initial Rule Filing, ICC proposed changes to the ICC Risk Management Framework to incorporate risk model enhancements related to the General Wrong Way Risk (“GWWR”) methodology. More specifically, ICC proposed changing the ICC Risk Management Framework to extend the GWWR framework to the portfolio level. Currently, there exists no Clearing Participant-level cumulative GWWR requirement incorporated in the Jump-to-Default calculations. The uncollateralized WWR exposure of a Risk Factor needs to exceed its corresponding WWR threshold in order to trigger WWR collateralization. According to ICC, the proposed enhancement is introduced to account for the potential accumulation of portfolio WWR through Risk Factor specific WWR exposures. ICC asserts that under the proposed approach, if the cumulative uncollateralized exposure exceeds a pre-determined portfolio GWWR threshold, the amount above the threshold is collateralized.

B. Description of Amendment No. 1

On September 1, 2015, ICC filed Amendment No. 1 to the proposed rule change. ICC stated that the purpose of the amendment was to provide further clarity regarding the risk enhancements described in the Initial Rule Filing. ICC proposed to revise its Risk Management Framework to include specific language regarding the pre-determined portfolio GWWR threshold. Specifically, ICC added clarifying language setting the minimum and maximum value of the parameter. According to ICC, the value of the parameter must be greater than, or equal to, the value of the greatest Risk Factor specific WWR threshold level. ICC stated that the parameter is further constrained not to exceed the sum of the minimum value and the value of the

average of all Risk Factor-specific WWR thresholds (excluding the greatest Risk Factor specific WWR threshold). ICC proposes to set the initial GWWR global parameter equal to the minimum value, the greatest Risk Factor specific WWR threshold, and will not increase the parameter value prior to March 31, 2016.

Additionally, in Amendment No. 1, ICC added clarifying language regarding how the Risk Factor specific WWR loss thresholds are determined. The proposed revisions clarify that the risk enhancements described in the Initial Rule Filing will apply to all products cleared by ICC within the Sovereign and Banking⁵ sectors. ICC represented that, should it decide to expand its product offering to include credit default swap contracts on its Clearing Participant names, it will specifically file a separate proposed rule change with the Commission regarding the applicability of the GWWR framework to such contracts. ICC has also updated its stress testing methodology to include additional analysis related to Clearing Participant WWR exposures.

C. Description of Amendment No. 2

On September 8, 2015, ICC filed Amendment No. 2 to the proposed rule change. ICC stated that the purpose of the amendment was to provide further clarity regarding the risk enhancements described in the Initial Rule Filing. In Amendment No. 2, ICC revised its Risk Management Framework to include specific language regarding the jump-to-default requirement related to the exposure to single name (“SN”) risk factors (“RFs”), which reflect outright and index-derived single name positions. Additionally, ICC added language clarifying that the GWWR analysis is applied to all cleared SN RFs within the Sovereign and Banking sectors, is applicable to post index-decomposition positions and reflects the combined exposure resulting

⁵ ICC stated that the Banking sector attribution follows the Bloomberg Industry Classification system (BICS).

from outright and index-derived SN positions. ICC also added language regarding the determination of correlation parameters needed for GWWR computations, specifically the quantification of loss-given-default resulting from correlated defaults. Finally, ICC updated its Stress Testing Framework to include additional analysis related to GWWR exposures for Clearing Participants' portfolios. As further described in the Stress Testing Framework, a portfolio of highly correlated RFs is created and is further subjected to additional stress testing analyses to uncover pockets of increased risk due to adverse market realizations for the highly correlated factors. ICC has also represented that it intends to submit a separate filing regarding its Stress Testing Framework, which contains the aforementioned enhanced stress testing analyses.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁶ 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 Act⁷ 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 and, in general, to protect investors and the public interest.

⁶ 15 U.S.C. 78s(b)(2)(C).

⁷ 15 U.S.C. 78q-1(b)(3)(F).

The Commission finds that ICC's proposed revisions to its Risk Management Framework are consistent with the requirements of Section 17A of the Act⁸ and regulations thereunder applicable to it, including the standards under Rule 17Ad-22.⁹ The proposed revisions are intended to enhance ICC's risk policies and are expected to impose more conservative initial margin requirements to account for the potential accumulation of portfolio WWR through Risk Factor specific WWR exposures, which ICC represents will enhance its available financial resources. The Commission therefore believes that the proposal is designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC and, in general, to protect investors and the public interest, consist with Section 17A(b)(3)(F) of the Act.¹⁰ Further, the Commission believes that the proposal is reasonably designed to meet the financial resource requirements of Rule 17Ad-22(b)(3).¹¹

IV. Accelerated Approval of Proposed Rule Change as Modified by Amendments No. 1 and 2

As discussed above, Amendments No. 1 and 2 are intended to provide further clarity and specificity regarding the proposed rule change. Specifically, the amendments provide further details regarding how ICC determines certain relevant parameters in its GWWR framework and describe enhancements to ICC's stress testing to monitor GWWR exposures. The Commission therefore believes that the modifications by Amendments No. 1 and 2 to the Initial Rule Filing are designed to promote the prompt and accurate clearance and settlement of securities

⁸ 15 U.S.C. 78q-1.

⁹ 17 CFR 240.17Ad-22.

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 240.17Ad-22(b)(3).

transactions and derivative agreements, contracts and transactions cleared by ICC and, in general, to protect investors and the public interest, consist with Section 17A(b)(3)(F) of the Act.¹² Further, the Commission believes that the modifications are reasonably designed to meet the financial resource requirements of Rule 17Ad-22(b)(3).¹³ As interested persons received an opportunity to submit written data, views and arguments concerning the Initial Rule Filing for a period of 21 days after its publication in the Federal Register, and Amendments No. 1 and 2 include detail that serves to clarify the Initial Rule Filing, the Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,¹⁴ to approve the proposed rule change, as modified by Amendments No. 1 and 2, prior to the thirtieth day after the date of publication of notice of Amendments No. 1 and 2 in the Federal Register.

V. 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. Please include File Number SR-ICC-2015-009 on the subject line.

Paper Comments:

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(b)(3).

¹⁴ 15 U.S.C. 78s(b)(2)(C)(iii).

- 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-2015-009. 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/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-2015-009 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

VI. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹⁵ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (SR-ICC-2015-009), as modified by Amendments No. 1 and 2, be, and hereby is, approved on an accelerated basis.¹⁷

Robert W. Errett
Deputy Secretary

¹⁵ 15 U.S.C. 78q-1.

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ In approving the proposed rule change, the Commission considered the proposed rule change's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).