

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85938; File No. SR-ICC-2019-005)

May 24, 2019

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to ICC's Stress Testing Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 16, 2019, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission the proposed rule change 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. Clearing Agency'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 Stress Testing Framework. These revisions do not require any changes to the ICC Clearing Rules ("Rules").

II. Clearing Agency'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, security-based swap submission, or advance notice and discussed any comments it received on the proposed rule change, security-based swap submission, or advance notice. The text of these statements may be

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

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

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.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

ICC proposes revising its Stress Testing Framework. 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 changes to the Stress Testing Framework to enhance ICC's stress testing practices. The proposed changes strengthen the documentation surrounding ICC's stress testing methodology, including by introducing certain core concepts earlier in the Stress Testing Framework, updating terminology to maintain uniformity in the document, and providing additional clarity on the construction and reporting of stress scenarios. The proposed changes also remove a section that is no longer relevant and strengthen governance arrangements related to the identification and remediation of poor stress testing performance. ICC further proposes clarification and clean-up changes throughout the document to enhance readability. ICC proposes to make such changes effective following Commission approval of the proposed rule change.

ICC proposes changes to the 'Methodology' section of the Stress Testing Framework. Under the proposed changes, ICC will introduce its Cover-2 requirement, including related definitions, earlier in the document, noting that it establishes if financial resources will cover hypothetical losses associated with the two greatest Clearing Participant ("CP") Affiliate Group ("AG") uncollateralized stress losses associated with

extreme but plausible scenarios. ICC proposes terminology updates, such as utilizing “CP AG” to reference CPs under a common parent entity, replacing a phrase with an abbreviation that was previously introduced, and shortening “Lehman Brothers” to “LB”. ICC proposes conforming changes throughout the document. ICC also proposes a clarification edit to specify the basis for ICC’s stress testing practices.

In the ‘Methodology’ section, ICC proposes to introduce the forward looking (hypothetically constructed) scenarios. Under the proposed revisions, ICC will add language describing the forward looking (hypothetically constructed) scenarios and move two paragraphs on their construction from the ‘Predefined Scenarios’ section to the ‘Methodology’ section. ICC proposes edits for clarity and uniformity to such paragraphs, including referring to “reference entity groups” as “Risk Factor Groups”<sup>3</sup> (“RFGs”), which ICC also proposes to do throughout the document; defining a CP RFG as a CP AG; specifying the reference entities in a RFG for stress testing; and adding definite article “the” in the phrase “as well as the peak”. ICC proposes to add language further explaining the calculation of Loss-Given-Default (“LGD”) and Expected LGD (“ELGD”) with respect to the forward looking (hypothetically constructed) scenarios.

The proposed changes amend the ‘Predefined Scenarios’ section. The proposed revisions indicate which scenarios are not expected to be realized as market outcomes and utilize bulleted lists to more clearly define the scenarios corresponding to the Historically Observed Extreme but Plausible Market Scenarios and the Historically Observed Extreme but Plausible Market Scenarios reflecting a baseline credit event. ICC

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<sup>3</sup> ICC deems each single name reference entity a Risk Factor. ICC deems a set of single name Risk Factors related by a common parental ownership structure a RFG.

proposes to cross-reference relevant sections when noting information found in those sections and make corresponding changes throughout the document. In describing the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios, ICC proposes to specifically refer to “references entities” as “Single Name Risk Factors”; incorporate language on the associated adverse credit event analysis; and utilize a bulleted list to more clearly define the scenarios corresponding to the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios. In discussing the Extreme Model Response Test Scenarios, ICC proposes to add the word “Market” to the phrase “Historically Observed Extreme but Plausible Market scenarios” and to utilize a bulleted list to more clearly define the scenarios corresponding to the Extreme Model Response Test Scenarios.

The proposed amendments move the ‘General Wrong Way Risk and Contagion Stress Tests’ section ahead of the adequacy and sensitivity analysis sections. The ‘General Wrong Way Risk and Contagion Stress Tests’ section is currently located between the adequacy and sensitivity analysis sections, and ICC proposes that it follow the ‘Display of Discordant Behavior among Instrument Groups’ section to avoid disrupting the grouping of adequacy and sensitivity analyses.

ICC proposes to remove the ‘Correlation Sensitivity Analysis based on Monte Carlo Simulations’ section. Given the transition from a stress-based methodology to a Monte Carlo simulations-based methodology for certain components of the Initial Margin model (the “model”),<sup>4</sup> references to the Monte Carlo sensitivity analysis as a stress

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<sup>4</sup> See SR-ICC-2018-008 for a description of the transition from a stress-based approach to a Monte Carlo simulations-based methodology for the spread response and recovery rate sensitivity response components of the model.

testing analysis in the Stress Testing Framework are no longer relevant. ICC considers a sensitivity analysis of risk parameters to be more fitting and incorporated such analysis in the ICC Risk Parameter Setting and Review Policy, which describes the process of setting and reviewing the model core parameters and the performance of sensitivity analyses related to certain parameter settings.<sup>5</sup>

ICC proposes a clarification update to indicate which scenarios generally yield the greatest consumption of the Guaranty Fund in the ‘Recovery Rate Sensitivity Analysis’ section and the ‘Interest Rate Sensitivity Analysis’ section.

ICC proposes amendments to the ‘Interpretation of Results’ section. ICC proposes to incorporate language that more clearly defines the scenarios corresponding to the Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios. Under the proposed revisions, the ICC reports that are associated with stress scenarios are listed in a table, along with the reporting frequency and classification (e.g., extreme but plausible, extreme and not expected to be realized, etc.), and a paragraph on hypothetical losses follows the table given its connection to the stress scenarios in the table. ICC proposes clarification edits to this paragraph, such as replacing “total” with “sum”, adding a parenthetical, and more generally referring to powers of assessment. Further, ICC proposes that a paragraph describing a figure in the document appear before, instead of after, the figure and that such figure is re-numbered given the addition of the proposed table. With respect to stress test results, ICC proposes to specify that it considers hypothetical losses on a Cover-2 basis and to cross-reference a section on the remediation

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<sup>5</sup> See SR-ICC-2019-002 for a description of the ICC Risk Parameter Setting and Review Policy.

of poor stress testing performance. The proposed changes also note that the Risk Department conducts monthly parameter reviews and parameter sensitivity analyses.

ICC proposes amendments to the ‘Post-Stress Testing Review & Governance Structure’ section. ICC proposes to cross-reference the table from the ‘Interpretation of Results’ section when noting information depicted in the table and make corresponding changes throughout the document. ICC proposes to clarify the frequency at which stress testing results are reviewed and risk results and issues are discussed. ICC proposes to note the Risk Committee’s role in ad hoc reviews of stress testing results undertaken by the Chief Risk Officer (“CRO”) or designee and to more clearly state that ICC conducts certain “periodic” reporting on a weekly basis. Also, the proposed changes provide clarification and direction with respect to poor stress testing performance, including by indicating that ICC considers stress test deficiencies on a Cover-2 basis, specifying the Risk Department’s role in identifying poor stress testing performance, and explaining how the Risk Department determines poor stress testing performance. Moreover, the proposed revisions specifically provide the CRO and Risk Oversight Officer (“ROO”) with authority to determine poor stress testing performance and describe the actions to take upon identifying poor stress testing performance, including by the Risk Working Group (“RWG”) and the Risk Department. In addition, ICC proposes to replace certain general references to the Risk Department with more specific references to the CRO, or designee.

ICC proposes to update the ‘References’ section with two ICC policies that provide further information on ICC Risk Department practices, including the calculation

of LGD and ELGD and the performance of monthly parameter reviews and parameter sensitivity analyses.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act<sup>6</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; 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 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>7</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, and contribute to the safeguarding of securities and funds associated with security-based swap transactions in ICC's custody or control, or for which ICC is responsible. The proposed changes to the Stress Testing Framework strengthen the documentation surrounding ICC's stress testing methodology, including by introducing certain core concepts earlier in the document, updating terminology to maintain uniformity, and providing additional clarity on the construction and reporting of stress scenarios. The proposed changes remove information that is no longer relevant and strengthen governance arrangements related to the identification and remediation of poor

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<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> Id.

stress testing performance, which serves to enhance ICC’s approach to identifying potential weaknesses in the risk methodology. The clarification and clean-up changes that enhance readability further ensure that the documentation of ICC’s Stress Testing Framework remains up-to-date, clear, and transparent. ICC believes that having policies and procedures that clearly and accurately document ICC’s stress testing practices are an important component to the effectiveness of ICC’s risk management system, which promotes the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions and the safeguarding of securities and funds associated with security-based swap transactions in ICC’s custody or control, or for which ICC is responsible. 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 and to contribute to the safeguarding of securities and funds associated with security-based swap transactions in ICC’s custody or control, or for which ICC is responsible within the meaning of Section 17A(b)(3)(F) of the Act.<sup>8</sup>

In addition, the proposed revisions to the Stress Testing Framework are consistent with the relevant requirements of Rule 17Ad-22.<sup>9</sup> Rule 17Ad-22(b)(3)<sup>10</sup> requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions. The proposed changes to the Stress Testing Framework provide

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<sup>8</sup> Id.

<sup>9</sup> 17 CFR 240.17Ad-22.

<sup>10</sup> 17 CFR 240.17Ad-22(b)(3).

further clarity and transparency regarding ICC’s stress testing practices, including by strengthening the documentation surrounding ICC’s stress testing methodology through the introduction of certain core concepts earlier in the document, updates to stress testing terminology to maintain uniformity, and additional clarity on the construction and reporting of stress testing scenarios. The proposed revisions also support ICC’s ability to maintain sufficient risk requirements and enhance ICC’s approach to identifying potential weaknesses in the risk management system by incorporating additional procedures related to the identification and remediation of poor stress testing performance, thereby ensuring that ICC maintains sufficient financial resources to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions, consistent with the requirements of Rule 17Ad-22(b)(3).<sup>11</sup>

Rule 17Ad-22(d)(8)<sup>12</sup> requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to have governance arrangements that are clear and transparent to fulfill the public interest requirements in Section 17A of the Act.<sup>13</sup> The proposed changes strengthen the governance arrangements set forth in the Stress Testing Framework by clearly assigning and documenting responsibility and accountability for the identification and remediation of poor stress testing performance. As such, these governance arrangements are clear and transparent, such that information relating to the assignment of responsibilities and the requisite involvement of the CRO,

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<sup>11</sup> Id.

<sup>12</sup> 17 CFR 240.17Ad-22(d)(8).

<sup>13</sup> 15 U.S.C. 78q-1.

ROO, Risk Department, RWG, the Risk Committee, and the Board is clearly documented, consistent with the requirements of Rule 17Ad-22(d)(8).<sup>14</sup>

(B) Clearing Agency'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 proposed changes to ICC's Stress Testing Framework will 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) Clearing Agency'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

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<sup>14</sup> 17 CFR 240.17Ad-22(d)(8).

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-2019-005 on the subject line.

Paper Comments:

Send paper comments in triplicate to . Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549.

All submissions should refer to File Number SR-ICC-2019-005. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2019-005 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>15</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).