SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91894; File No. SR-ICC-2021-007)

May 13, 2021

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the ICC's Treasury Operations Policies and Procedures

I. Introduction

On March 29, 2021, 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 revise the ICC Treasury Operations Policies and Procedures (the "Treasury Policy"). The proposed rule change was published for comment in the Federal Register on April 13, 2021.[3] The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

ICC is proposing amendments to its Treasury Policy to make certain clarifications and updates with respect to governance arrangements and collateral asset haircuts, as well as minor clean-up changes. The proposed amendments are summarized below.[4]

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the ICC's Treasury Operations Policies and Procedures, Exchange Act Release No. 91489 (April 7, 2021), 86 Fed. Reg. 19311 (April 13, 2021) (SR-ICC-2021-007) ("Notice").

4 The following description of the proposed rule change is substantially excerpted from the Notice.

ICC proposes to amend the "Revision History" section of the Treasury Policy. The proposed changes would remove an incorrect statement that the document's revision history is limited to the last three years. The proposed changes would also memorialize ICC's review and approval process of the Treasury Policy document, which consists of review by the ICC Risk Committee and review and approval by the ICC Board of Managers (the "Board") at least annually. Additionally, ICC would update the revision history table to include the most recent changes to the document.

ICC also proposes updates and clarification changes to the "Collateral Assets Risk Management Framework" appendix to the Treasury Policy ("Appendix 6"). Under the Treasury Policy, ICC accounts for the risk associated with fluctuations in the value of collateral assets by discounting, or applying "haircuts" to, such assets based on the risk measures and risk factors set forth in Appendix 6. The ICC Risk Department (the "Risk Department") calculates such haircuts for various collateral assets as described in Appendix 6 on an ongoing basis. ICC proposes to change Appendix 6 to update the measure of daily changes for collateral assets such as sovereign debt. Specifically, the proposed changes would amend and remove certain language that differentiates between yield rates greater than and less than or equal to one basis point in respect of sovereign debt collateral haircuts. ICC represents that such amendments do not represent a change to the methodology and would provide a more generalized and consistent collateral risk management framework for sovereign debt.[5] ICC proposes additional clarifications, including with respect to time series used for determining sovereign debt collateral

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5 See Notice, 86 Fed. Reg. at 19311.

haircuts and a formula regarding a risk-factor specific haircut. ICC also proposes a grammatical update to change a reference to "haircuts" from plural to singular.

ICC further proposes additional detail on the process of reviewing and updating collateral asset haircuts. Appendix 6 currently states that such haircuts are reviewed monthly. ICC proposes to clarify that the Risk Department will establish haircuts for the respective collateral asset types within measured intervals, and review them at least monthly to determine the need for updates. ICC also proposes to specify that the Risk Department may use discretion to update collateral asset haircuts during periods of extreme market stress, and specifically during periods when collateral assets appreciate in response to central banks' policy implementations, as a temporary means to reduce procyclical impacts.

III. Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act[6] and Rules 17Ad-22(e)(2)(i) and (v), (e)(3)(i), and (e)(5) thereunder.[7]

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of ICC be designed to promote the prompt and accurate clearance and settlement of

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6 15 U.S.C. 78q-1(b)(3)(F).

7 17 CFR 240.17Ad-22(e)(2)(i) and (v), (e)(3)(i), and (e)(5).

securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of ICC or for which it is responsible.[8]

As described above, the proposed rule change would update and clarify the revision history of the Treasury Policy document and memorialize the governance arrangements for its review and approval. The Commission believes that these proposed changes should help ICC maintain a complete and transparent history of changes to the Treasury Policy and ensure that the Treasury Policy is reviewed and approved at least annually to support ICC's ongoing treasury functions, including collateral asset risk management. The Commission believes these aspects of the proposed rule change should facilitate ICC's ability to maintain CDS clearing services that are supported by, and consistent with, clear and transparent governance arrangements that comply with internal Treasury policies and procedures, which should, in turn, help ICC continue to promote the prompt and accurate settlement of CDS transactions.

ICC would also update and clarify its collateral assets risk management framework in Appendix 6 of the Treasury Policy by changing certain risk measures for calculating collateral asset haircuts. Specifically, as described above, the proposed rule change would update the measure of daily changes for collateral assets such as sovereign debt, including with respect to time series used for sovereign debt collateral haircuts and a formula regarding a risk-factor specific haircut. ICC would also change a reference to "haircuts" from plural to singular. Further, ICC also proposes additional detail in Appendix 6 on the process and frequency of reviewing and updating collateral asset

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8 15 U.S.C. 78q-1(b)(3)(F).

haircuts. ICC proposes to clarify that the Risk Department will establish haircuts for the respective collateral asset types within measured intervals, and review them at least monthly to determine the need for updates. ICC also proposes to specify that the Risk Department may use discretion to update collateral asset haircuts during periods of extreme market stress to reduce procyclicality.

Taken together, the proposed changes to Appendix 6 should enhance the accuracy of ICC's collateral asset haircuts and help ICC to ensure that, even in stressed market conditions, it will continue to collect sufficient collateral from its clearing participants and that such collateral could be liquidated in a timely manner to meet its financial obligations as a central counterparty while also limiting the likelihood of procyclical impacts from haircuts as issuer creditworthiness deteriorates and haircuts increase. Moreover, these proposed changes should enhance ICC's ability to manage the credit, liquidity, and market risks it faces from collateral posted by its participants. Accordingly, the Commission believes that ICC's proposed changes to Appendix 6 should help ICC to continue providing prompt and accurate settlement of CDS transactions and to enhance ICC's ability to safeguard securities and funds which are in its custody or control or for which it is responsible.

For these reasons, the Commission finds that the proposed rule change is consistent with the Section 17A(b)(3)(F) of the Act.[9]

B. <u>Consistency with Rule 17Ad-22(e)(2)(i) and (v)</u>

Rules 17Ad-22(e)(2)(i) and (v) require that ICC establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for

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9 15 U.S.C. 78q-1(b)(3)(F).

governance arrangements that are clear and transparent and specify clear and direct lines of responsibility.[10]

As noted above, the proposed rule change would enhance the governance arrangements for reviewing and approving the Treasury Policy document generally, including clear governance arrangements for reviewing and updating haircuts under the collateral asset risk management framework in Appendix 6. Specifically, the proposed rule change provides that the Treasury Policy document is subject to review by the Risk Committee and review and approval by the Board at least annually. Further, the proposed rule change would clarify and update the current statement in Appendix 6 that collateral asset haircuts are reviewed monthly, by specifying that the Risk Committee will establish haircuts for the respective collateral asset types within measured intervals, and review them at least monthly to determine the need for updates. The proposed rule change would also clarify that the Risk Committee may exercise discretion to review and update haircut values more frequently, if it deems necessary, and may make incremental, temporary adjustments to existing haircuts in response to specific market conditions. The Commission therefore believes that these aspects of the proposed rule change will maintain ICC's Treasury operations policies and procedures in a manner reasonably designed to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility.

For these reasons, the Commission finds that the proposed rule change is consistent with Rules 17Ad-22(e)(2)(i) and (v).[11]

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10 17 CFR 240.17Ad-22(e)(2)(i) and (v).

11 17 CFR 240.17Ad-22(e)(2)(i) and (v).

C. Consistency with Rule 17Ad-22(e)(3)(i)

Rule 17Ad-22(e)(3)(i) requires, among other things, that ICC establish, implement, maintain, and enforce written policies and procedures reasonably designed to, as applicable, maintain a sound risk management framework that identifies, measures, monitors, and manages the range of risks that it faces.[12]

As described above, ICC's proposed changes to its collateral assets risk framework in Appendix 6 would refine and update certain risk measures and risk factors for determining collateral asset haircuts that can be accepted from an ICC clearing participant. The proposed changes would also require the Risk Department to review and update haircut values at least monthly, or more frequently as it deems necessary, and to incrementally update such haircuts during periods of extreme market stress. The Commission believes that these updated collateral asset risk management procedures should allow ICC to continue to mitigate collateral price and liquidation risk through setting acceptable haircuts and providing governance guidelines for monitoring haircut values and managing any deviations or related issues, thereby continuing to maintain a sound risk management framework in this regard.

For these reasons, the Commission finds that the proposed rule change is consistent with Rule 17Ad-22(e)(3)(i).[13]

D. Consistency with Rule 17Ad-22(e)(5)

Rule 17Ad-22(e)(5) requires that ICC establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, limit the assets it

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12 17 CFR 240.17Ad-22(e)(3)(i).

13 17 CFR 240.17Ad-22(e)(3)(i).

accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually.[14]

The Commission believes that the proposed changes in Appendix 6 regarding the factors and other considerations with respect to acceptable collateral asset haircuts should continue to maintain ICC's ability to limit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and to set and enforce appropriately conservative haircuts for sovereign debt and other acceptable collateral assets. Further, the proposed updates to the governance arrangements for the risk management framework of collateral assets haircuts in Appendix 6 would ensure that the Risk Department establishes haircuts for the respective collateral asset types within measured intervals, and continues to review haircuts at least monthly, subject to regular reviews and more frequent valuation updates, if needed.

For these reasons, the Commission finds that the proposed rule change is consistent with Rule 17Ad-22(e)(5).[15]

IV. 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

[14] 17 CFR 240.17Ad-22(e)(5).

[15] 17 CFR 240.17Ad-22(e)(5).

Section 17A(b)(3)(F) of the Act[16] and Rules 17Ad-22(e)(2)(i) and (v), (e)(3)(i), and (e)(5) thereunder.[17]

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act[18] that the proposed rule change (SR-ICC-2021-007) be, and hereby is, approved.[19]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[20]

J. Matthew DeLesDernier
Assistant Secretary

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16 15 U.S.C. 78q-1(b)(3)(F).

17 17 CFR 240.17Ad-22(e)(2)(i) and (v), (e)(3)(i), and (e)(5).

18 15 U.S.C. 78s(b)(2).

19 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).

20 17 CFR 200.30-3(a)(12).