

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-93795; File No. SR-ICC-2021-022)

December 15, 2021

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

I. Introduction

On October 13, 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 (the “Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to revise ICC’s End-of-Day Price Discovery Policies and Procedures (the “Pricing Policy”). The Pricing Policy formalizes ICC’s end-of-day (“EOD”) price discovery process that provides prices for cleared credit default swap (“CDS”) contracts based on submissions from ICC’s Clearing Participants.³ The proposed rule change was published for comment in the Federal Register on November 2, 2021.⁴ The Commission did not receive comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

As part of ICC’s current EOD price discovery process to obtain reliable, market-driven prices of cleared CDS instruments, ICC Clearing Participants (“CPs”) are required to submit

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms used but not defined herein have the meanings specified in the Pricing Policy.

⁴ Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the ICC End-of-Day Price Discovery Policies and Procedures, Exchange Act Release No. 93432 (Oct. 27, 2021); 86 Fed. Reg. 60493 (Nov. 2, 2021) (SR-ICC-2021-022) (“Notice”).

daily EOD prices for cleared single name CDS instruments, index CDS instruments, and options on index CDS instruments related to their open positions at ICC in accordance with the Pricing Policy. ICC uses the resulting EOD prices for risk management purposes. ICC is proposing to revise the Pricing Policy with respect to CPs' EOD price submissions for index CDS instruments ("index submissions").⁵

The Pricing Policy currently allows CPs to provide index submissions in either spread convention or price convention. The proposed rule change would remove the ability for CPs to provide index submissions in spread convention and would require CPs to provide all index submissions in price convention, which ICC explains would standardize its instrument submission requirements and allow ICC to avoid converting between spread and price.⁶ ICC represents that it intends to implement the proposed rule change in a phased approach following Commission approval and the completion of any other required governance or internal processes.⁷ The proposed specific amendments are summarized as follows.

ICC proposes to amend Subsection 2.2.3 of the Pricing Policy, which sets out the submission format requirements for index instruments. Currently, index submissions may be provided in spread convention or price convention depending on the instrument, as illustrated in Table 8. Under the proposed changes, index submissions would be provided only in price convention, which has two acceptable types, price or upfront. The proposed changes remove Table 8 and language regarding the submission of recovery rates, which relate to submissions provided in spread terms. ICC proposes minor changes to renumber the tables in the Pricing

⁵ The description herein is substantially excerpted from the Notice.

⁶ See Notice at 60494.

⁷ Id.

Policy accordingly, and to spell out an abbreviated term “RR” as “recovery rate” in this subsection.

ICC proposes to amend Subsection 2.2.4 related to the standardization of submissions. Currently, the cross-and-lock algorithm used by ICC to determine EOD prices and potential trades requires inputs in bid-offer format and executes in price terms or spread terms depending on the convention for the considered instrument. Currently, ICC standardizes CP submissions into bid-offer format in either price or spread terms, depending on the convention. Under the proposed changes, the cross-and-lock algorithm would execute in price terms only. The proposed changes would remove language referencing spread terms and distinguishing between price and spread terms. The proposed changes also would remove language differentiating between submissions in price or spread in subpart (a) of Subsection 2.2.4.

ICC proposes similar changes to Subsection 2.3 (End-of-Day Levels and Potential-Trades). As proposed, ICC would no longer determine EOD levels in terms of either spread or price. Specifically, the proposed changes would remove language requiring ICC to execute the cross-and-lock algorithm in spread-space for index instruments with a quote convention of spread, in price-space for index instruments with a quote convention of price, and in price-space for all single name and index option instruments. Under Subsection 2.3.1(g) of the Pricing Policy, ICC currently adjusts outlying submission trade prices for index option, single name, and index instruments with a cross-and-lock convention of price and outlying submission trade spreads for index instruments with a cross-and-lock convention of spread. For index instruments with a cross-and-lock convention of spread, ICC performs a conversion between trade price and spread. The proposed changes would remove the need for ICC to adjust outlying submission trade spreads, including the need for a conversion between trade price and spread.

III. Discussion and 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.⁸ For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act and Rule 17Ad-22(e)(6)(iv) thereunder.⁹

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 securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions.¹⁰

As noted above, the proposed rule change would amend several subsections of the Pricing Policy to require CPs to provide all index submissions in price convention rather than in spread convention. Specifically, in Subsection 2.2.3, ICC would remove Table 8 given that ICC's submission requirements for index instruments would no longer accommodate spread convention, and also related language regarding the submission of recovery rates, which relate to submissions provided in spread terms. In Subsection 2.2.4, ICC would amend the cross-and-lock algorithm to execute in price terms (rather than in price or spread terms depending on the convention for the considered instrument), and remove language referencing spread terms and other language that distinguishes or differentiates between price and spread terms. In Subsection 2.3, ICC would remove language requiring ICC to execute the cross-and-lock algorithm in

⁸ 15 U.S.C. 78s(b)(2)(C).

⁹ 17 CFR 240.17Ad-22(e)(6)(iv).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

spread-space for index instruments with a quote convention of spread, in price-space for index instruments with a quote convention of price, and in price-space for all single name and index option instruments, and also eliminate the need to adjust outlying submission trade spreads, including the need for conversion between trade price and spread for index instruments with a cross-and-lock convention of spread.

The Commission believes that these aspects of the proposed rule change would simplify the EOD price discovery process for index CDS instruments with standardized submission requirements, and thereby facilitate ICC's risk management of such instruments. Specifically, the Commission believes that, by requiring CPs to provide all index submissions in price convention, ICC would avoid spending additional time and resources for adjusting outlying submission trade spreads and converting between trade price and spread, thereby helping to reduce potential operational risks and inefficiencies in ICC's EOD price discovery and risk management processes for cleared index CDS instruments. The Commission believes that reducing operational risk and inefficiencies by simplifying the EOD submission process would, in turn, enhance the efficiency of ICC's EOD price discovery process and help promote the prompt and accurate clearance and settlement of index CDS.

As noted above, the proposed rule change includes administrative revisions designed to support the substantive changes relating to simplification of the EOD submission process (e.g., removal of Table 8; deletion of language regarding the submission of recovery rates; renumbering of other tables in the Pricing Policy; and providing a complete reference to an abbreviated term). The Commission believes that these administrative changes would also promote the prompt and accurate clearance and settlement of such instruments to the extent such changes support the substantive changes described above.

Therefore, the Commission believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.¹¹

B. Consistency with Rule 17Ad-22(e)(6)(iv) under the Act

Rule 17Ad-22(e)(6)(iv)¹² requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The Commission believes the proposed rule change, by amending several subsections of the Pricing Policy, as described above, to require CPs to provide all index submissions only in price convention rather than allowing submission in either price or spread, should help ICC establish more timely price data on which it may rely when calculating margin requirements that will account for the risks posed by index CDS instruments as part of its overall risk-based margin system and risk management processes.

The Commission believes that the proposed rule change is therefore consistent with Rule 17Ad-22(e)(6)(iv).¹³

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² 17 CFR 240.17Ad-22(e)(6)(iv).

¹³ 17 CFR 240.17Ad-22(e)(6)(iv).

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 Section 17A(b)(3)(F) of the Act and Rule 17Ad-22(e)(6)(iv) thereunder.¹⁴

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act¹⁵ that the proposed rule change (SR-ICC-2021-022), be, and hereby is, approved.¹⁶

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

J. Matthew DeLesDernier
Assistant Secretary

¹⁴ 17 CFR 240.17Ad-22(e)(6)(iv).

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 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).

¹⁷ 17 CFR 200.30-3(a)(12).