SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95504; File No. SR-ICC-2022-008)

August 16, 2022

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the Stress Testing Framework and the Liquidity Risk Management Framework

I. Introduction

On June 23, 2022, 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 amend its Stress Testing Framework ("STF") and the ICC Liquidity Risk Management Framework ("LRMF"). The proposed rule change was published for comment in the Federal Register on July 11, 2022.[3] The Commission did not receive comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

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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 Stress Testing Framework and the Liquidity Risk Management Framework; Exchange Act Release No. 95200 (Jul. 5, 2022); 87 Fed. Reg. 41149 (Jul. 11, 2022) (File No. SR-ICC-2022-008) ("Notice").

II. Description of the Proposed Rule Change

ICC proposes to revise its STF and LRMF to introduce new stress scenarios, clarify existing stress scenarios, and make other minor edits.[4] Specifically, the proposed rule change would introduce new stress scenarios related to the Coronavirus pandemic and oil price war (the "COVID-19/Oil Crisis").

A. STF

The proposed amendments to the STF introduce new stress scenarios related to the COVID-19/Oil Crisis, clarify existing stress scenarios related to credit default index swaptions ("index options"), and make other minor edits. Specifically, the proposed changes would amend Section 5.1 containing the historically observed extreme but plausible market scenarios with a minor edit to abbreviate a term and to introduce additional stress scenarios related to the COVID-19/Oil Crisis. ICC previously introduced price-based stress scenarios related to the COVID-19/Oil Crisis in the STF, which replicate observed instrument price changes during this period.[5] This proposal would incorporate complementing spread-based stress scenarios related to the COVID-19/Oil Crisis, which reflect observed relative spread increases and decreases during this period (the "COVID-19/Oil Crisis Spread Scenarios"). Additionally, the stress scenarios

4 The description that follows is substantially excerpted from the Notice. Capitalized terms not otherwise defined herein have the meanings assigned to them in the STS, LRMF or ICC's Clearing Rules, as applicable.

5 Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the ICC Risk Management Framework, ICC Risk Management Model Description, ICC Risk Parameter Setting and Review Policy, ICC Stress Testing Framework, and ICC Liquidity Risk Management Framework; Exchange Act Release Number 89639 (Aug. 21, 2020); 85 Fed. Reg. 53036 (Aug. 27, 2020) (File No. SR-ICC-2020-009).

related to index options (i.e., the stress options-implied Mean Absolute Deviation ("MAD") scenarios) would be moved into a separate section and corresponding references throughout the STF would accordingly refer to this new Section 9.

The proposal would make the following additional clarifications in Section 5 and throughout the STF. To distinguish between price- and spread-based stress scenarios, ICC proposes to replace references to COVID-19/Oil Crisis Scenarios in the current STF with references to COVID-19/Oil Crisis Price Scenarios. The proposal would also incorporate the COVID-19/Oil Crisis Spread Scenarios in the other categories of scenarios, namely in Section 5.3 (hypothetically constructed (forward looking) extreme but plausible market scenarios) and Section 5.4 (extreme model response test scenarios), as well as in Section 14 (interpretation of results).

Additionally, the proposal would add text describing how the existing stress scenarios for index option positions are integrated within the current set of stress scenarios for CDS index and single name instruments. The stress options-implied MAD scenarios are currently generated for index option positions and are not applied to portfolios independently, but rather, are directly incorporated into the CDS stress scenarios. The proposed rule changes would clarify that the stress options-implied MAD scenarios complement the underlying stress scenarios (in Section 6) and reference proposed Section 9 for more detail on the stress options-implied MAD approach (in Section 8).

ICC proposes to add a new Section 9 to the STF, which would memorialize the stress options-implied MAD scenarios and approach. As described above, information from current Section 5.1 on these scenarios would move to Section 9 with certain amendments. The proposed amendments would not change ICC's stress testing methodology, but instead would add detail and updated terminology for clarity. The proposed language would explain that when index options are present in a portfolio, the underlying market stress test scenarios incorporate the stress options-implied MAD scenarios. ICC proposes terminology changes that would specify that the scenarios consider an increase/decrease in the options-implied MAD upon spread widening/tightening and clarification changes would detail the incorporation of the options-implied MAD in the scenarios. The proposed changes are intended to more clearly set forth the process for creation of the stress options-implied MAD, including how the necessary components are derived. No changes are proposed with respect to what the final scenario prices of the index option instruments reflect. ICC also proposes to renumber sections throughout the STF as necessary, including in Table 1 in Section 14. Finally, proposed Section 17 adds a revision history to track changes.

B. LRMF

ICC proposes corresponding changes to the LRMF to introduce new stress scenarios related to the COVID-19/Oil Crisis, clarify existing stress scenarios related to index options, and make other minor edits.

ICC proposes to revise Section 2.3 of the LRMF regarding liquidity requirements for client-related accounts. The proposed changes would specify that Clearing Participants deposit 100% of their Euro denominated client gross margin in any acceptable collateral to match Schedule 401 in the ICC Rules. This is intended to be a clean-up change to remove an outdated provision to ensure consistency across the LRMF and ICC Rules and would not change current requirements.

The proposed rule change would update Section 3.3.2 regarding the historically observed extreme but plausible market scenarios. The proposal would expand the set of extreme market events to include COVID-19 and the simultaneous occurrence of the oil price war, and would also make grammatical edits to change a term to its plural form. Consistent with the STF, ICC previously introduced the COVID-19/Oil Crisis price-based stress scenarios in the LRMF[6] and proposes now to incorporate the complementing COVID-19/Oil Crisis Spread Scenarios, which are also referred to as the COVID19OCSS, in the LRMF. The price-based stress scenarios would be referred to as the COVID-19/Oil Crisis Price Scenarios or COVID19OCPS throughout the document.

ICC also proposes revisions to Section 3.3.2 of the LRMF regarding stress options-implied MAD scenarios . To ensure consistency with the STF, ICC proposes adding language and changes in subsection (b) that would be similar to the language proposed in the STF. The proposed rule changes would memorialize the stress options-implied MAD scenarios and approach more clearly in the LRMF, including how the scenarios for index option positions are integrated within the current set of stress scenarios for CDS index and single name instruments. The proposed amendments would not change ICC's liquidity risk management methodology, but would instead add detail and update terminology to be clearer. The proposed terminology changes would specify that the scenarios consider an increase/decrease in the options-implied MAD and clarification changes would detail the incorporation of the options-implied MAD in the scenarios. The proposed changes are intended to more clearly set forth the process for the creation of the stress options-implied MAD, including how the necessary components

6 Id.

are derived. No changes are proposed with respect to what the final scenario prices of the index option instruments reflect. ICC proposes a typographical fix in the footnotes to refer to the correct reference document. In addition, the proposal would amend subsection (d) to add a section symbol and to set out how the stress options-implied MAD scenarios that complement the extreme model response test scenarios are derived to match language currently in the STF.

ICC also proposes minor updates to Section 3.3 of the LRMF. Specifically, the proposal would incorporate the COVID-19/Oil Crisis Spread Scenarios in Section 3.3.3 in Table 1 containing the liquidity stress testing scenarios and in Section 3.3.4 related to the interpretation of results. The proposed rule changes would also make a minor edit to the extreme market scenarios in Table 1 to specify that the COVID19OCPS are extreme.

III. Discussion of 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.[7] For the reasons discussed below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act[8] and Rule 17Ad-22(e)(4)(ii) and (vi), and Rule 17Ad-22 (e)(7)(i) and (vi) thereunder.[9]

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

7 15 U.S.C. 78s(b)(2)(C).

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

9 17 CFR 240.17Ad-22(e)(4)(ii) and (vi) and 17 CFR 240.17Ad-22 (e)(7)(i) and (vi).

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, as well as to assure the safeguarding of securities and funds which are in the custody or control of ICC or for which it is responsible.[10]

As noted above, the proposal would incorporate into the STF and LRMF spread-based stress scenarios related to the COVID-19/Oil Crisis, which reflect observed relative spread increases and decreases during this period and which complement previously introduced the COVID-19/Oil Crisis price-based stress scenarios. By adding spread-based stress scenarios related to the COVID-19/Oil Crisis, the Commission believes the proposed rule change should enhance ICC's ability to manage risks in a way that makes it more flexible and capable of considering events beyond, for instance, price-based stress scenarios. The Commission believes that considering additional stress scenarios should, in turn, increase the likelihood that ICC calculates and collects sufficient financial resources to mitigate its potential exposures. Managing such exposures should, in turn, enhance ICC's ability to manage the default of a clearing participant by continuing to promptly and accurately clear and settle securities transactions.

Additionally, as noted above, the proposed rule change would, while not changing ICC's methodology, clarify in both the STF and LRMF that the stress options-implied MAD scenarios are integrated within the current set of stress scenarios for CDS index and single name instruments. Further, the proposed rule change would reorganize the STF to memorialize the stress options-implied MAD scenarios and approach in a separate

[10] 15 U.S.C. 78q-1(b)(3)(F).

section. The proposed language would explain that when index options are present in a portfolio, the underlying market stress test scenarios incorporate the stress options-implied MAD scenarios. Proposed terminology changes would specify that the scenarios consider an increase/decrease in the options-implied MAD upon spread widening/tightening, and clarification changes would detail the incorporation of the options-implied MAD in the scenarios. Further, the proposed changes would more clearly set forth the creation of the stress options-implied MAD, including how the necessary components are derived. The proposed rule change would also make various clean-up changes detailed above. For example, the proposed rule change would make grammatical edits, renumber sections, make changes to distinguish between price and spread COVID-19/Oil Crisis scenarios, and specify that Clearing Participants deposit 100% of their Euro denominated client gross margin in any acceptable collateral in order to match Schedule 401 in the ICC Rules. The Commission believes that these proposed organizational and clean-up changes would enhance the STF and LRMF used to support ICC's risk management system by increasing readability, transparency, and clarity regarding its practices, and therefore support the ability of those utilizing these documents to manage risk and maintain adequate financial resources, thereby promoting both the prompt and accurate clearance and settlement of securities transactions and the ability to safeguard securities and funds.

For these reasons, the Commission believes the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act.[11]

B. <u>Consistency with Rule 17Ad-22(e)(4)(ii) and (vi)</u>

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[11] 15 U.S.C. 78q-1(b)(3)(F).

Rule 17Ad-22(e)(4)(ii) requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for ICC in extreme but plausible market conditions.[12] Rule 17Ad-22(e)(4)(vi)[13] requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements of Rule 17Ad-22(e)(4)(ii).[14]

The Commission believes that the proposed introduction of the COVID-19/Oil Crisis Spread Scenarios would complement the current scenarios in the risk management policies and procedures and add additional insight into potential weaknesses in the ICC risk management methodology, thereby widening the range of stress scenarios that ICC employs to manage its credit exposures and financial resources. Additionally, the Commission believes that the proposed changes noted above to add detail, update

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12 17 CFR 240.17Ad-22(e)(4)(ii).

13 17 CFR 240.17Ad-22(e)(4)(vi).

14 17 CFR 240.17Ad-22(e)(4)(ii).

terminology, ensure consistency across the STF and LRMF, and more clearly describe the stress options-implied MAD scenarios, would ensure transparency and strengthen ICC's risk management documentation, thereby supporting the effectiveness of ICC's risk management system to cover a wide range of foreseeable stress scenarios, including the COVID-19/Oil Crisis Spread Scenarios.

The Commission also believes that the proposed clarification and clean-up changes noted above would also enhance the readability of the policies and procedures, thereby strengthening the documentation for its users and ensuring that it remains up-to-date, clear, and transparent to support the effectiveness of ICC's risk management system.

For these reasons, the Commission believes that the proposed rule changes are therefore consistent with the requirements of Rules 17Ad-22(e)(4)(ii) and (e)(4)(vi).[15]

C. <u>Consistency with Rule 17Ad-22(e)(7)(i) and (vi)</u>

Rule 17Ad-22(e)(7)(i) requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by it, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment

[15] 17 CFR 240.17Ad-22(e)(4)(ii) and (vi).

obligation for ICC in extreme but plausible market conditions.[16] Rule 17Ad-22(e)(7)(vi)[17] requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by it, including determining the amount and regularly testing the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under Rule 17Ad-22(e)(7)(i).[18]

The Commission believes that the proposed changes noted above provide further clarity and transparency regarding ICC's liquidity stress testing practices to strengthen the documentation surrounding ICC's liquidity stress testing and liquidity risk management, including by providing additional scenario descriptions. The Commission believes that the introduction of the COVID-19/Oil Crisis Spread Scenarios would complement the current scenarios and, in turn, widen the range of stress scenarios that ICC employs to monitor and manage its liquidity risks. The Commission further believes that introduction of the COVID-19/Oil Crisis Spread Scenarios would improve ICC's testing of the sufficiency of its liquid resources, by providing additional insights and information using spread-based scenarios.

The Commission believes that the proposed clarification and clean-up changes provide further clarity and transparency regarding ICC's liquidity risk management practices in the LRMF, including by promoting uniformity with the STF, ensuring consistency between the LRMF and the ICC Rules regarding the client-related liquidity

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16 17 CFR 240.17Ad-22(e)(7)(i).

17 17 CFR 240.17Ad-22(e)(7)(vi).

18 17 CFR 240.17Ad-22(e)(7)(i).

requirements, and ensuring that information and references are current, including in Table 1 which sets out the liquidity stress testing scenarios. The Commission believes that these proposed changes would strengthen ICC's STF and LRMF and aid users of the documentation in managing ICC's liquid resources.

For the reasons stated above, the Commission believes that the proposed rule changes are consistent with Rules 17Ad-22(e)(7)(i) and (vi).[19]

[19] 17 CFR 240.17Ad-22(e)(7)(i) and (vi).

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[20] and Rule 17Ad-22(e)(4)(ii) and (vi), and Rule 17Ad-22 (e)(7)(i) and (vi) thereunder.[21]

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act[22] that the proposed rule change (SR-ICC-2022-008), be, and hereby is, approved.[23]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[24]

Jill M. Peterson
Assistant Secretary

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20 15 U.S.C. 78q-1(b)(3)(F).

21 17 CFR 240.17Ad-22(e)(4)(ii) and (vi) and (e)(7)(i) and (vi).

22 15 U.S.C. 78s(b)(2).

23 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).

24 17 CFR 200.30-3(a)(12).