

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95654; File No. SR-ICC-2022-012)

September 1, 2022

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the Clearing Rules

I. Introduction

On July 19, 2022, ICE Clear Credit LLC (“ICE Clear Credit” or “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 amend its Rules to permit it to take advantage of certain settlement finality protections under applicable United Kingdom (“UK”) and European Union (“EU”) law. The proposed rule change was published for comment in the Federal Register on July 29, 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.

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 Clearing Rules; Exchange Act Release No. 95357 (July 25, 2022); 87 Fed. Reg. 45840 (July 29, 2022) (File No. SR-ICC-2022-012) (“Notice”).

II. Description of the Proposed Rule Change

A. Background

The EU Settlement Finality Directive⁴ introduced various insolvency-related protections in relation to “designated systems” used by EU participants to transfer financial instruments and payments, and participation in those systems. The Settlement Finality Directive aims to ensure that as a matter of EU member state laws, transfer orders which enter into such systems are finally settled, regardless of whether the sending participant has gone into an insolvency process. Transfer orders for this purpose include instructions to make cash payments (including margin payments) and instructions to transfer securities (including as margin or in physical settlement of a cleared transaction, if applicable). Under the Settlement Finality Directive, transfer orders and related netting arrangements are enforceable, even in the event of insolvency proceedings against a participant, provided that the transfer order was entered into the system before the opening of the insolvency proceeding. Further, under the Settlement Finality Directive, the right of the operator of a designated system to realize and apply collateral security provided by a participant would not be affected by insolvency proceedings against the participant.

“Designated systems” are defined as formal arrangements, governed by the law of an EU member state, between three or more participants with common rules and standard arrangements for clearing or execution of transfer orders between participants, and have been designated as a system and notified to the European Securities and Markets Authority (“ESMA”). Although the Settlement Finality Directive itself does not establish

⁴ EU Directive 98/26/EC.

an equivalent regime for systems operated under the laws of a non-EU member state (“third-country systems”), such as United States (“US”) clearing houses, Recital 7 of the Settlement Finality Directive provides that member states may choose to apply the provisions of the Settlement Finality Directive to their domestic institutions that participate directly in third country systems, and to collateral security provided in connection with participation in such systems. As a result, in some EU member states it is possible for a third country system such as ICC to receive national designation or be otherwise protected as a designated system for the purposes of that member state’s national law.

The UK has implemented similar settlement finality regulations that continue to apply following the withdrawal of the UK from the EU, and which are also potentially applicable to UK institutions that participate in third country systems (such as a US clearing house).⁵

B. Proposed Rule Change

The purpose of the proposed rule changes is to modify certain of ICC’s Rules to introduce explicit provisions relating to the settlement finality of transfer orders in order to permit ICC to take advantage of certain protections for default rights and remedies under applicable Settlement Finality Laws.⁶ The proposed amendments are expected to

⁵ Financial Markets and Insolvency (Settlement Finality) Regulations 1999. As used herein, the EU Settlement Finality Directive, national implementing legislation and the UK Settlement Finality Regulations are collectively referred to as “Settlement Finality Laws.”

⁶ The description that follows is substantially excerpted from the Notice. Capitalized terms not otherwise defined herein have the meanings assigned to them in ICC’s Rules, as applicable.

be principally relevant in the case of an insolvency of an ICC Clearing Participant domiciled in the UK or an EU member state. The proposed amendments would rely on certain protections in such Settlement Finality Laws and regulations that provide additional support (on top of existing protections in applicable law) for the enforceability of the ICC's default rights and remedies under the Rules without interference in such an insolvency.

Specifically, the amendments would address which "transfer orders" arise in ICC's system, when they become irrevocable, who is bound by them, and when they terminate. ICC believes that the amendments would facilitate obtaining the relevant protections of the Settlement Finality Laws, which would principally be relevant in the case of an insolvency of a Participant domiciled in an EU member state or in the UK. The amendments would not otherwise affect ICC's rights and obligations under the Rules, including default rights and remedies, and would not be expected to be relevant to an insolvency proceeding involving a Participant organized in the US or otherwise outside of the EU or the UK.

In the Rules, ICE Clear Credit would adopt a new Chapter 10 addressing Settlement Finality Laws. Rule 1000 would add a number of related definitions, including definitions for relevant legislation and regulations, such as "EMIR," "Financial Collateral Directive," "Financial Collateral Regulations," "FSMA," "Settlement Finality Directive," "Settlement Finality Regulations," and "UK EMIR." The rule would also adopt key definitions relating to the settlement finality provisions, including "ICE Systems" (referencing ICE Clear Credit's trade registration, clearing processing and finance systems), "SFD System" (referencing the third country system operated by ICE

Clear Credit for purposes of the Settlement Finality Laws), “Payment Transfer Order,” “Securities Transfer Order” and “Transfer Order” (representing the types of transfer orders used in the ICE system and covered by the Settlement Finality Laws), “SFD Participant” (referencing ICE Clear Credit itself, its Participants organized in the European Economic Area (“EEA”) or in the UK, among certain other relevant persons), “SFD Custodian” (referencing a custodian located in the EEA or the UK used by ICE Clear Credit or a Participant for the holding or transfer of Non-Cash Collateral), “SFD Financial Institution” (referencing a financial institution located in the EEA or UK used by ICE Clear Credit or a Participant for purpose of the deposit or transfer of cash), “SFD Security” (referencing a security as defined in the Settlement Finality Laws), “Indirect Participant” (referencing Non-Participant Parties that fall within the definition of indirect participant under the Settlement Finality Laws), and “Non-Cash Collateral” (referencing Margin or Collateral in the form of a security).

New Rule 1001 would set out general principles relevant to implementation of the EU and UK settlement finality arrangements. Subsection (a) would provide that ICC is the operator of a third country system for purposes of relevant Settlement Finality Laws, and that Chapter 10 of the Rules would apply to ICE Clear Credit and SFD Participants to the extent that the Settlement Finality Laws are applicable to such persons. Subsection (b) would require SFD Participants to comply with actions taken by ICC pursuant to Chapter 10 and the relevant Settlement Finality Laws, and to acknowledge that the Settlement Finality Laws modify certain otherwise applicable provisions of insolvency laws. Subsection (c) would provide that each SFD Participant is on notice of the provisions of Chapter 10, and by virtue of participating in the SFD System, is deemed to

agree to the application of Chapter 10 (including in the event of any conflict with any other agreement or obligation). Subsection (d) would provide an additional acknowledgment that Margin and Collateral transferred to ICC under the Rules fall within certain protections for collateral arrangements under the Settlement Finality Laws.

New Rule 1002 would address the timing and circumstances in which various types of Transfer Orders would arise for purposes of the ICC SFD System, specifically Payment Transfer Orders and Securities Transfer Orders in various circumstances, including for transfer of positions (“Position Transfer Orders”), transfer of non-cash collateral (“Collateral Transfer Orders”), submission of new trades for clearing (“New Transaction Clearing Orders”), backloading trades for clearing (“Backloaded Transaction Clearing Orders, and together with New Transaction Clearing Orders, “Transaction Clearing Orders”), and physical settlement under cleared CDS contracts (“CDS Physical Settlement Orders”). The rule would also specify the subject matter of each type of Transfer Order (e.g., a payment in respect of a Payment Transfer Order) and the parties in respect of which each type of Transfer Order would apply and have effect (e.g., in the case of a Payment Transfer Order, the affected Participant (if it is an SFD Participant), ICE Clear Credit, and any affected SFD Financial Institution). Rule 1002 would also address the possibility of multiple Transfer Orders existing in respect of the same obligation (which may exist, but would not result in the duplication of any obligation), and the fact that netting or close out of Contracts would not affect the status of Transfer Orders. The rule also states, consistent with the general approach of the Rules, that where a Transfer Order applies to an Indirect Participant, it would not affect the liability of any SFD Participant pursuant to the same Transfer Order.

Rule 1003 would specify the time at which each type of Transfer Order (specifically, Payment Transfer Orders, Position Transfer Orders, Collateral Transfer Orders, Transaction Clearing Orders, and CDS Physical Settlement Orders) becomes irrevocable for purposes of the relevant Settlement Finality Laws. Payment Transfer Orders would become irrevocable at the earlier of the time payment is received or at the time the relevant financial institution used by ICC for this purpose sends a SWIFT or other confirmation that payment has been made. Collateral Transfer Orders similarly would become irrevocable at the earlier of the time the transfer is received or a related securities transfer order in a relevant securities transfer system becomes irrevocable. Position Transfer Orders would become irrevocable at the time the position transfer is recorded in the ICC systems, and Transaction Clearing Orders would become irrevocable at the applicable Novation Time under the Rules. CDS Physical Settlement Orders would become irrevocable at the earliest of (1) the time the Matched Delivery Buyer has irrevocably instructed its custodian to transfer the relevant securities to the Matched Delivery Seller, (2) the time the relevant instrument is delivered or assigned, or (3) the time notice is otherwise given under the Rules that the Matched Delivery Pair have settled the relevant Matched Delivery Contracts. Under the Rule, as from the time when the Transfer Order becomes irrevocable, it could not be revoked or purported to be revoked by any SFD Participant or ICE Clear Credit and would be binding on all SFD Participants.

Rule 1004 would address variations or cancellations of Transfers Orders prior to the time they become irrevocable, in specified circumstances. These circumstances include, for any Transfer Order, cases where the order is affected by manifest or proven

error or an error agreed to by all affected SFD Participants. Additional grounds for variation or cancellation apply for particular types of Transfer Order. In the case of a Payment Transfer Order or Collateral Transfer Order, these would include where the underlying Contract is void or avoided under the Rules or applicable law, or amended as a result of ICC exercising its discretion under the Rules. Transaction Clearing Orders may be subject to variation or cancellation where the underlying trade is not eligible for clearing or otherwise not accepted for clearing, and Backloaded Transaction Clearing Orders may be subject to variation or cancellation if an error or omission is noted to ICC prior to the Novation Time. Similarly, variation or cancellation of a CDS Physical Settlement Order may be made if a NOPS Amendment Notice is validly delivered under the Rules or ICE Clear Credit Procedures. Under Rule 1004, in these circumstances, ICC would be permitted to make appropriate modifications to the relevant Transfer Order, or in the alternative to cancel the relevant Transfer Order. Rule 1004 also would not preclude ICC from taking steps to give rise to a new Transfer Order with opposite effect to an existing Transfer Order or part thereof. Rule 1004 also would provide for notice of any modification or cancellation of a Transfer Order to affected SFD Participants.

Rule 1005 would specify the circumstances under which Transfer Orders are deemed satisfied. Specifically, Payment Transfer Orders are satisfied upon all required payments being received in immediately available funds or full satisfaction of the underlying obligation is otherwise made and recorded in ICC's systems, free of any encumbrances. Position Transfer Orders would be deemed satisfied upon becoming irrevocable (at which time the relevant positions have been transferred under the Rules). Collateral Transfer Orders would be deemed satisfied upon ICC or the Participant, as

applicable, receiving the Non-Cash Collateral in its account or upon the definitive record of the assets transferred by the Participant being updated to reflect the successful transfer of the relevant collateral. Transaction Clearing Orders would be deemed satisfied at the time the relevant cleared contracts arise under the Rules. A CDS Physical Settlement Order would be deemed satisfied at the time ICC updates its records to reflect that physical delivery of the relevant security has been completed or the delivery obligations of the parties are otherwise discharged or settled.

Rule 1006 would set out certain acknowledgements of ICC, Participants, and Non-Participant Parties with respect to matters relating to Margin or Collateral to the extent they fall to be determined under the laws of an EEA member state or the UK. The amendments would clarify that such arrangements are subject to the EU Financial Collateral Directive or UK Financial Collateral Regulations, as applicable, and would provide that Participants and Non-Participant Parties would not dispute that characterization. The amendments would further provide that arrangements for the provision of cash Margin and Collateral constitute “title transfer financial collateral arrangements” and arrangements for the provision of Pledged Items constitute “security financial collateral arrangements,” in each case for purposes of the EU Financial Collateral Directive or UK Financial Collateral Arrangements, that all such Margin and Collateral constitute “financial collateral” for purposes of such laws, and that ICC has possession or control of such Margin and Collateral for purposes of such laws. The amendments would also state that for purposes of UK law, the security arrangements under the Rules constitute a “market charge” for purposes of the Companies Act 1989,

which provides certain protections for the enforceability of such arrangements in the event of the insolvency of a clearing participant.

ICC also proposes to make certain amendments to Rule 611, which currently addresses the treatment of certain Rules under various insolvency laws and other protections for the enforceability of default remedies in the event of the insolvency of a clearing participant. The amendments would add a new subsection (f), which would provide that specified Rules providing for default rights and remedies would constitute default rules, procedures and similar arrangements as defined for purposes of relevant EU and UK law, including EMIR, UK EMIR, and the Settlement Finality Laws.

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.⁷ For the reasons discussed below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁸ and Rule 17Ad-22(e)(1) 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 a clearing agency be designed to promote the prompt and accurate clearance and settlement

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)(1).

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

As noted above, the proposed rule changes would introduce provisions that support the operation of the settlement finality provisions of EU and UK law. These provisions ensure that transfer orders by a Clearing Participant that is domiciled in an EU member state or in the UK will be cleared even if that Clearing Participant enters into insolvency proceedings after the transfer order was entered into the system. As noted in more detail above, the proposed rule change would accomplish this by adopting key definitions relating to the Settlement Finality Laws, set out general principles relevant to implementation of the EU and UK settlement finality arrangements (such as participant acknowledgement of the applicability of the settlement finality rules to margin and collateral), specify timing that each transfer order becomes irrevocable for purposes of the relevant Settlement Finality Laws, circumstances under which transfer orders are deemed satisfied, and specify that Rules providing for default rights and remedies would constitute default rules, procedures and similar arrangements as defined for purposes of relevant EU and UK law, including EMIR, UK EMIR, and the Settlement Finality Laws.

The Commission believes that these proposed rule changes, while not changing any of the existing default rights or remedies of ICC but rather by adopting explicit provisions relating to settlement finality of transfer orders of Clearing Participants in insolvency, will help support the payment and transfer of margin and collateral and thus the prompt and accurate clearance and settlement of securities transactions by ensuring

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

that its rules facilitate explicit reference and participant awareness and acknowledgement of the applicability of EU and UK Settlement Finality Laws.

For these reasons, 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)(1)

Rule 17Ad-22(e)(1) requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed, as applicable, to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.¹²

As noted above, ICC proposes to rely on provisions of the Settlement Finality Laws regulations that provide additional support for the enforceability of the ICC's default rights and remedies. For example, under the Settlement Finality Directive, transfer orders and related netting arrangements are enforceable, even in the event of insolvency proceedings against a participant. The Commission believes that by proposing to align key definitions and rules to the Settlement Finality Laws as noted above and by requiring relevant Clearing Participants to comply with and acknowledge the settlement finality provisions, the proposed rule changes would provide a well-founded and clear legal basis for ICC to enforce its clearing rules during an insolvency of a Clearing Participant domiciled in the EU or the UK.

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² 17 C.F.R. 240.17Ad-22(e)(1).

For these reasons, the Commission believes that the proposed rule changes are consistent with Rule 17Ad-22(e)(1).¹³

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 Act¹⁴ and Rule 17Ad-22(e)(1) hereunder.¹⁵

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act¹⁶ that the proposed rule change (SR-ICC-2022-012), be, and hereby is, approved.¹⁷

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

J. Matthew DeLesDernier,
Deputy Secretary.

¹³ 17 C.F.R. 240.17Ad-22(e)(1).

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ 17 CFR 240.17Ad-22(e)(1).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ 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).

¹⁸ 17 CFR 200.30-3(a)(12).