

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-97196; File No. SR-ICC-2023-003)

March 24, 2023

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to British Pounds Sterling as Client-Related Margin

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on March 13, 2023, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“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 implement certain amendments to ICC’s Clearing Rules (the “Rules”) and Treasury Operations Policies and Procedures (“ICC Treasury Policy”) to add cash British pounds sterling (“GBP”) as eligible margin to meet Client-Related Margin requirements. The text of the proposed amendments is attached [sic] in Exhibit 5.

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 and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The purpose of the proposed changes is to modify certain provisions to the ICC Rules and ICC Treasury Policy to add cash British pounds sterling (“GBP”) as eligible margin to meet Client-Related Initial Margin requirements. ICC Clearing Participants are required to post Client-Related Initial Margin to collateralize their individual credit exposure to ICC. Such Client-Related Initial Margin is intended to collateralize the risk arising from the client related positions cleared at ICC by ICC Clearing Participants. ICC limits the assets it accepts as collateral to those with low credit, liquidity and market risks. Currently, an ICC Clearing Participant may meet their Client-Related Initial Margin requirements with US dollar cash, Euro cash or US Treasuries. ICC has received verbal feedback from several market participants requesting that ICC Clearing Participants to have the ability to post GBP in addition to the asset types currently accepted by ICC, specifically to support United Kingdom (UK) and European Union (EU) based customer clearing activity. Several UK and EU market participants have requested the addition of GBP as an ICC acceptable collateral type in connection with their exploration of migrating their credit default swap (CDS) clearing activity to ICC from ICE Clear Europe Limited (ICEU) following the recent ICEU announcement that it plans to cease its CDS clearing services³. ICC previously accepted GBP to meet Client-

³ See ICE Clear Europe public circular dated September 26, 2022, and available here: https://www.ice.com/publicdocs/clear_europe/circulars/C22109.pdf.

Related Initial Margin, Non-Client Initial Margin and Guaranty Fund requirements, but that option was revoked in 2017⁴. ICC chose to cease accepting GBP cash in 2017 because no ICC Clearing Participants posted GBP cash while it was an acceptable collateral type; and ICC considered GBP cash a less liquid resource due to the potential need to convert it to either US dollar cash or Euro cash.⁵

Recently, ICC has received customer feedback that there is a renewed interest in posting GBP, as many UK and EU based customers maintain GBP balances; and if ICC Clearing Participants were permitted to pass on customer GBP assets to ICC to meet Client-Related Initial Margin requirements, customers could decrease their overall cost of capital and reduce foreign exchange risk by posting GBP instead of converting GBP into another form of eligible collateral. Furthermore, ICC desires to structure its collateral acceptance policy to better serve UK and EU based market participants who may be seeking alternative CDS clearing services given the impending cessation of ICEU's current CDS clearing services. Therefore, allowing ICC Clearing Participants to post GBP to meet Client-Related Initial Margin requirements will facilitate a more effective and efficient transition from alternative CDS clearing services that generally accept GBP as collateral.

⁴ See Securities Exchange Act Release No. 81037 (June 28, 2017) (notice), 82 Fed. Reg. 31121 (July 5, 2017) (SR-ICC-2017-010). The Commission subsequently approved ICC's proposal to remove the eligibility of GBP cash (as well as certain other currencies) as acceptable collateral. See Securities Exchange Act Release No. 81386 (August 14, 2017), 82 Fed. Reg. 39484 (August 18, 2017) (SR-ICC-2017-010).

⁵ See Securities Exchange Act Release No. 81037 (June 28, 2017), 82 Fed. Reg. 31121, 31122 (July 5, 2017) (SR-ICC-2017-010).

For the aforementioned reasons, ICC proposes revising the ICC Rules and ICC Treasury Policy to add GBP to the list of eligible collateral to satisfy Client-Related Initial Margin requirements. With the addition of GBP, the list of eligible collateral to satisfy ICC Client-Related Initial Margin requirements shall be: US dollar cash, Euro cash, US Treasuries and GBP cash. It should be noted that with respect to liquidity, ICC's Liquidity Risk Management Framework does not consider any collateral posted for Client-Related Initial Margin to be counted as an available liquidity resource, therefore the addition of GBP as an acceptable form of Client-Related Initial Margin collateral will not impact the amount of ICC's liquidity resources or its liquidity stress testing processes. The proposed revisions to the ICC Rules and ICC Treasury Policy are described in detail as follows. Only in the event of an ICC Clearing Participant default would ICC potentially need to convert posted GBP Client-Related Margin to either US dollar cash or Euro cash. The FX risk stemming from the acceptance of GBP as Client-Related Initial Margin is addressed by applying a set of conservative currency haircuts.

ICC Rules

ICC proposes updates to Schedule 401 of the ICC Rules. Specifically, ICC proposes adding GBP to the list of "all eligible collateral" to meet Client-Related Initial Margin requirements identified in Schedule 401 of the ICC Rules. In addition, ICC proposes to modify the Client-Related Initial Margin liquidity requirements set forth in Schedule 401 of the ICC Rules as follows: For US dollar denominated products, ICC proposes changing the (i) minimum percentage of the overall Initial Margin requirement to be met in US dollar denominated assets (i.e., US dollar cash and US Treasuries) from 65% to 45% and; (ii) percentage of the overall Initial Margin requirement that may be

met in any eligible collateral (US dollar cash, Euro cash, GBP cash and US Treasuries) from 35% to 55%. For Client-Related Initial Margin requirements for Euro denominated products, ICC proposes changing (i) the minimum percentage of the overall Initial Margin requirement to be met in US dollar cash, Euro cash or US Treasuries from 100% to 45% and; (ii) adding a new category that permits the remaining 55% of the overall Initial Margin requirement to be met in any eligible collateral (US dollar cash, Euro cash, GBP cash and US Treasuries).

Such proposed changes to the Client-Related Initial Margin thresholds are intended to modify the current conservative thresholds which are very restrictive as Client-Related Initial Margin is not part of ICC's Liquidity Risk Management Framework. The proposed modified thresholds reflect the fact that only the first-day liquidity needs (measured as 45% of Initial Margin requirements) must be met in a form of collateral for which ICC maintains committed repurchase agreements and committed FX facilities. The remaining 55% can be met in any type of accepted collateral. With the proposed modified thresholds, ICC continues to maintain a conservative approach by directly requiring that Client-Related first-day liquidity needs (i.e., 45% of Initial Margin requirements) are met in the forms of permitted collateral for which either collateral transformations are not necessary or committed agreement are in place to provide all necessary immediate liquidity.

ICC Treasury Policy

ICC also proposes updates to the ICC Treasury Policy to add GBP cash as eligible margin to meet Client-Related Initial Margin requirements. The purpose of the ICC Treasury Policy is to articulate the policies and procedures used to support the ICC

Treasury Department, which is responsible for daily cash and collateral management of margin and guaranty fund assets, including Client-Related Initial Margin assets. ICC proposes adding a 'British Pound Sterling' sub-section to the 'Investment Strategy' section of the ICC Treasury Policy to indicate that GBP cash posted to meet Client-Related Initial Margin will not be invested, rather, such GBP cash will be held in bank deposits.

Also, ICC proposes updating the 'Cash Settlement' section of the ICC Treasury Policy to add GBP to the existing 9:00 am eastern time deadline for ICC Clearing Participants to notify ICC of its desire for EUR margin withdrawals or substitutions for EUR cash. With this change GBP Client-Related Initial Margin withdrawals and GBP substitutions will have the same 9:00 am eastern time deadline as EUR for ICC Clearing Participants to notify ICC of their desire to withdraw available excess GBP Client-Related Initial Margin or to substitute for GBP cash. Further, ICC proposes to update the 'Acceptable Collateral' section of the ICC Treasury Policy to add GBP cash to ICC's list of acceptable forms of collateral for Initial Margin, noting that GBP cash is only acceptable for Client-Related Initial Margin.

In addition, ICC proposes to update the 'Collateral Valuation' section of the ICC Treasury Policy to describe the valuation processes for GBP cash collateral as follows: (i) for GBP used to cover a US dollar denominated product requirement it is first converted to the US dollar value and then such US dollar value is haircut at the GBP currency haircut and (ii) for GBP used to cover a EUR denominated product requirement it is first converted to the US dollar value and then such US dollar value is haircut at the GBP currency haircut. In addition, the EUR denominated product requirement is converted to

the US dollar value which is then grossed up by the EUR currency haircut. Furthermore, ICC proposes language clean up changes to this same section of the ICC Treasury Policy.

ICC further proposes to update the ‘Eligible Client Collateral’ section of the Treasury Policy to add GBP cash to ICC’s list of eligible collateral for Client-Related Initial Margin, which currently includes US dollar cash, Euro cash, and US Treasuries. ICC proposes updates to the ‘Client-Related Initial Margin Liquidity Requirements’ section of the Treasury Policy to reflect the proposed liquidity requirement changes, namely, for US dollar denominated products, ICC proposes changing the (i) minimum percentage of the overall Initial Margin requirement to be met in US dollar denominated assets (i.e., US dollar cash and US Treasuries) from 65% to 45% and (ii) percentage of the overall Initial Margin requirement that may be met in any eligible collateral (US dollar cash, Euro cash, GBP cash and US Treasuries) from 35% to 55%. For Client-Related Initial Margin requirements for Euro denominated products, ICC proposes changing (i) the minimum percentage of the overall Initial Margin requirement to be met in US dollar cash, Euro cash or US Treasuries from 100% to 45% and (ii) adding a new category that permits the remaining 55% of the overall Initial Margin requirement to be met in any eligible collateral (US dollar cash, Euro cash, GBP cash and US Treasuries).

Such proposed changes to the Client-Related Initial Margin thresholds are intended to modify the current conservative thresholds which are very restrictive as Client-Related Initial Margin is not part of ICC’s Liquidity Risk Management Framework. The proposed modified thresholds reflect the fact that only the first-day liquidity needs (measured as 45% of Initial Margin requirements) must be met in a form of collateral for which ICC maintains committed repurchase agreements and committed

FX facilities. The remaining 55% can be met in any type of accepted collateral. With the proposed modified thresholds, ICC continues to maintain a conservative approach by directly requiring that Client-Related first-day liquidity needs (i.e., 45% of Initial Margin requirements) are met in the forms of permitted collateral for which either collateral transformations are not necessary or committed agreement are in place to provide all necessary immediate liquidity.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act⁶ 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 changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC, in particular, to Section 17A(b)(3)(F),⁷ as ICC believes acceptance of GBP cash collateral minimizes exposure to FX fluctuations for those market participants that desire to post GBP cash with ICC, and the acceptance of GBP cash for Client-Related Initial Margin does not change the ICC liquidity profile. Therefore, ICC believes that adding GBP cash as eligible collateral to meet Client-Related Initial Margin requirements will promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions,

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ Id.

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. Such changes are consistent with the eligible collateral accepted by other market participants.⁸ Further, the proposed updates will have no impact on ICC's liquidity profile as GBP cash will only be accepted with respect to Client-Related Initial Margin (and not for house Initial Margin or Guaranty Fund obligations) and ICC's immediate liquidity needs are not met by any Client-Related collateral. In addition to GBP cash, ICC will continue to accept US dollar cash, Euro cash, and US Treasuries as eligible collateral, in accordance with Schedule 401 of the ICC Rules. With the addition of GBP, the list of collateral accepted by ICC will remain limited to those collateral types with low credit, liquidity, and market risks consistent with Rule 17Ad-22(e)(5).⁹ Furthermore, ICC will apply conservative haircuts and concentration limits to GBP cash accepted as Client-Related Initial Margin, which will be reviewed no less than annually, consistent with Rule 17Ad-22(e)(5).¹⁰ Such collateral will continue to be held in a manner whereby risk of loss or of delay in access to them is minimized, consistent with Section 17A(b)(3)(F).¹¹

⁸ See for example (i) ICE Clear Europe *List of Permitted Cover, Margin Cover and Limits on Collateral* (February 2023) available here: https://www.ice.com/publicdocs/clear_europe/list-of-permitted-covers.pdf and (ii) LCH SA list of acceptable currencies to cover margin requirements available here: <https://www.lch.com/collateral-management/sa-collateral-management/sa-acceptable-collateral/sa-acceptable-cash>.

⁹ 17 CFR 240.17Ad-22(e)(5).

¹⁰ Id.

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

(B) Clearing Agency's Statement on Burden on Competition

ICC does not believe the proposed rule changes will have any impact, or impose any burden, on competition. The changes to ICC's eligible collateral apply uniformly across all market participants and the addition of GBP cash to the list of acceptable collateral does not require any market participant to deposit GBP with ICC, rather, the expansion of ICC's acceptable collateral list provides additional optional choices to all market participants with respect to the forms of collateral deposited at ICC. Therefore, ICC does not believe the proposed rule changes impose 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

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

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. Please include File Number SR-ICC-2023-003 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.

All submissions should refer to File Number SR-ICC-2023-003. 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 NE, Washington, DC 20549, on official business days between the hours of 10:00 am and

3:00 pm. 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.ice.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-2023-003 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.¹²

Sherry R. Haywood
Assistant Secretary

¹² 17 CFR 200.30-3(a)(12).