SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-98496; File No. SR-ICC-2023-012)

September 25, 2023

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

I. Introduction

On August 8, 2023, 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 update its Stress Testing Framework ("STF"). The proposed rule change was published for comment in the *Federal Register* on August 21, 2023.[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.

II. Description of the Proposed Rule Change

ICC is registered with the Commission as a clearing agency for the purpose of clearing credit default swap ("CDS") contracts. ICC clears CDS contracts for its members, which it refers to as Clearing Participants.[4] Clearing CDS contracts for Clearing Participants presents certain risks to ICC, such as exposure to systemic risk, which may include, but is not limited to, historic and current market volatility, and fluctuating interest rates. ICC measures and attempts to protect against such systemic

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; Exchange Act Release No. 98140 (Aug. 15, 2023); 88 FR 56899 (Aug. 21, 2023) (File No. SR-ICC-2023-012) ("Notice").

4 Capitalized terms not otherwise defined herein have the meanings assigned to them in ICC's Clearing Rules.

risk by performing stress tests and, at times, adjusting the parameters underlying these stress-testing scenarios.

This proposed rule change aims to update two parameters incorporated into several of ICC's stress-testing scenarios. The parameters relate to the interest rate sensitivity analysis applied to two sets of historically observed, extreme but plausible market scenarios described in ICC's STF, and measure the magnitude of interest rate shocks during the applicable stressed periods used to estimate average haircut values of certain government securities. In particular, ICC proposes to change the stress period of the default-free Euro discount interest rate curve used in ICC's interest rate sensitivity analysis and revise the description of the credit crisis period for the default-free U.S. Dollar discount interest rate curve.

Currently under the STF, Section 11, which describes ICC's interest rate sensitivity analysis, incorporates two currency-specific stress test parallel shifts (*i.e.*, up and down) of the default-free discount interest rate for both CDS and CDS Index Options instruments. The magnitude of the interest rate stress scenarios reflects the largest shock, estimated using the collateral haircut model, during a selected stress period for the applicable sovereign debt. The current stress period of the default-free Euro discount interest rate curve references the "western European credit" crisis period and specifies exact start and end dates between 2011 and 2012. The selected stress periods listed in Section 11 are subject to periodic review. Following such a review, ICC proposes to update the stress period used to shock the Euro default-free discount interest rate by replacing the current language with "2022/2023 inflation" crisis period and not specifying start and end dates.

ICC states that changing the stress period of the default-free Euro discount interest rate curve would more accurately reflect the current volatile interest rate period, which began in 2022 and continues into 2023 due to the fast pace of U.S. Dollar and Euro interest rate increases.[5] According to ICC, the impact to the Euro interest rate volatility has been significant because of the sudden and rapid increases in Euro interest rates by the European Central Bank in an effort to curb multi-decade high inflation.[6] ICC indicates that the interest rate volatility observed during the ongoing "2022/2023 inflation" crisis period is greater than that observed during the 2011–2012 "western European credit" crisis period currently listed in the STF because the collateral haircuts observed in 2022-2023 exceed those detected in 2011-2012.[7] ICC has set an internal start date for the "2022/2023 inflation" crisis period. However, as the 2022-2023 period of volatility remains ongoing, ICC states that it will continue to monitor interest rate volatility for any new volatility peak observed in the current "2022/2023 inflation" crisis period for the default-free Euro discount interest curve.

Additionally, ICC proposes to make an analogous clarifying language change to the identification of the default-free U.S. Dollar discount interest rate curve in Section 11 of the STF. Specifically, the proposed change would remove the exact start and end dates of the credit crisis period from Section 11 and replace them with the description written as the "2008/2009" credit crisis period. The exact start and end dates of the "2008/2009" credit crisis period are listed in Section 5 of STF and would remain unchanged. This proposed rule change would not alter the time span or affect any other

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5 Notice, at 56899.

6 *Id*.

7 *Id*.

characteristic of the parameter covering the "2008/2009" credit crisis period for the default-free U.S. Dollar discount interest rate curve.

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 discussed below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act[9] and Rule 17Ad-22(e)(4)(ii) and (vi) thereunder.[10]

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.[11]

The proposed rule change would update the period covering the default-free Euro discount interest curve, which is part of the interest rate sensitivity analysis applied to several of ICC's stress-testing scenarios in its STF. Specifically, the proposed 2022/2023 inflation crisis period, which is ongoing, has exhibited greater interest rate volatility than that observed during the 2011-2012 western European credit crisis period. The Commission believes that this proposed rule change would provide a more accurate

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8 15 U.S.C. 78s(b)(2)(C).

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

10 17 CFR 240.17Ad-22(e)(4)(ii) and (vi).

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

magnitude of the largest shock to the applicable sovereign debt used as part of the parameters underlying ICC's stress scenarios. Recalibrating the magnitude of the largest shock would enhance ICC's ability to identify and measure the risk of a credit exposure to defaulting Clearing Participants, which should, in turn, increase the likelihood that ICC calculates and collects sufficient financial resources to mitigate this potential exposure and enhance ICC's ability to manage a default by continuing to promptly and accurately clear and settle securities transactions.

Additionally, ICC's proposal to streamline the description of the 2008/2009 credit crisis period applicable to the default-free U.S. dollar interest rate curve would provide consistency to the language relevant to the interest rate sensitivity analysis in the STF. This, in turn, would assist in facilitating the execution of the various stress tests, thus helping to ensure the adequacy of systemic risk protections through appropriate financial resource collection during a Clearing Participant default, and promoting the prompt and accurate clearance and settlement of securities transactions.

For these reasons, the Commission believes the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act.[12]

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

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

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12 *Id*.

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.[13] Rule 17Ad-22(e)(4)(vi)[14] 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).[15]

The Commission believes that replacing the 2011-2012 western European credit crisis period with the 2022/2023 inflation crisis period relating to the default-free Euro discount interest rate curve used for interest rate sensitivity analysis would provide a more effective measurement of the required shock in stress testing. This updated measurement may better ensure ICC's ability to monitor and manage its credit exposures and to maintain additional financial resources to enable it to cover a wide range of foreseeable stress scenarios. Likewise, the Commission believes that the simplified description of the 2008/2009 credit crisis period applicable to the default-free U.S. dollar interest rate curve would enhance the readability and usability of the STF, thereby enhancing the documentation for its users and helping ensure that it remains transparent and consistent to support the effectiveness of ICC's risk management system.

[13] 17 CFR 240.17Ad-22(e)(4)(ii).

[14] 17 CFR 240.17Ad-22(e)(4)(vi).

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

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).[16]

[16] 17 CFR 240.17Ad-22(e)(4)(ii) 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,[17] and Rule 17Ad-22(e)(4)(ii) and (vi) thereunder.[18]

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act[19] that the proposed rule change (SR-ICC-2023-012), be, and hereby is, approved.[20]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[21]

Sherry R. Haywood,

Assistant Secretary.

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17 15 U.S.C. 78q-1(b)(3)(F).

18 17 CFR 240.17Ad-22(e)(4)(ii) and (vi).

19 15 U.S.C. 78s(b)(2).

20 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).

21 17 CFR 200.30-3(a)(12).