

# SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-102969; File No. SR-ICC-2025-001]

## **Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to ICC’s Risk Parameter Setting and Review Policy and the Risk Management Model Description**

May 1, 2025.

### **I. Introduction**

On March 12, 2025, 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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to revise its Risk Parameter Setting and Review Policy (“RPSRP”) and its Risk Management Model Description (“RMMD”) (“Proposed Rule Change”). The Proposed Rule Change was published for comment in the *Federal Register* on March 20, 2025.<sup>3</sup> The Commission has not received any comments on 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 CDS contracts.<sup>4</sup> As a clearing agency, one of ICC’s functions is to manage risks

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 102679 (Mar. 14, 2025), 90 FR 13223 (Mar. 20, 2025) (File No. SR-ICC-2025-001) (“Notice”).

<sup>4</sup> Capitalized terms not otherwise defined herein have the meanings assigned to them in ICC’s Clearing Rules, RPSRP, or the RMMD, as applicable.

inherent to the clearance and settlement of securities transactions. To help manage these risks, ICC requires Clearing Participants to post initial margin and guaranty fund payments. The RMMD describes ICC’s quantitative risk models and the associated methods and techniques used to help ICC determine its initial margin and guaranty fund requirements.<sup>5</sup> The calculations described in the RMMD use certain parameters.<sup>6</sup> In the RPSRP, ICC describes how it sets and reviews these parameters, including how it performs sensitivity analysis related to certain parameter settings.<sup>7</sup>

ICC proposes changes to both the RPSRP and the RMMD to better document its risk management methodology and processes.<sup>8</sup> ICC’s proposed changes fall into four categories. First, ICC proposes changes to the RPSRP to update the risk management mean absolute deviation (“MAD”) parameters for CDS single name risk factors (“RFs”) daily rather than monthly.<sup>9</sup> Second, ICC proposes to enhance calibration details and documentation related to the anti-procyclical condition (“APC”) measure for CDS index options in the RPSRP and the RMMD. Third, ICC proposes to update the calculation of the risk factor level maximum loss (“MaxLoss”) in the RMMD. Fourth, ICC proposes minor corrections, clarifications, and additions in both the RPSRP and the RMMD.

#### 1. Daily Updates to the Risk Management MAD Parameters

The RPSRP contains details related to parameters considered in calculating the

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<sup>5</sup> Notice, 90 FR at 13224.

<sup>6</sup> *Id.* at 13223.

<sup>7</sup> *Id.* Some parameters addressed in the RPSRP are used in contexts other than calculating initial margin or guaranty fund requirements. Additionally, some parameters addressed in the RPSRP are used in calculations described in the ICC Risk Management Framework. *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> As described in the RMMD, ICC considers every CDS index, sub-index, or single name to be a separate risk factor.

integrated spread response (“ISR”). The ISR is a risk model component that captures the credit spread and recovery rate fluctuations and is computed by creating profit/loss distributions from a set of jointly simulated hypothetical credit spread and recovery rate scenarios.<sup>10</sup> This component helps ICC to determine the riskiness of instrument positions in various hypothetical contexts.<sup>11</sup> One of the ISR parameters is the risk management MAD.<sup>12</sup>

Currently, risk management MADs are updated at different times depending on whether the risk management MADs are for indexes or single names. The index RF level risk management MADs are automatically updated daily in the risk management system.<sup>13</sup> On the other hand, the single-name RF level risk management MADs are reviewed and analyzed prior to implementing any single-name RF level parameter updates into the risk management system and at least monthly.<sup>14</sup>

ICC’s proposal would change the RPSRP to automatically update the single-name RF level risk management MADs daily rather than at least monthly.<sup>15</sup> To effect this change, ICC proposes editing language in Section 1.7.1 of the RPSRP, which states that index RF level risk management MADs are automatically updated daily in the RM system, to note that single name RF level risk management MADs are automatically updated daily too.<sup>16</sup> For the same reason, the proposal would also delete text in this

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<sup>10</sup> *Id.* at 13223 n.3.

<sup>11</sup> *Id.* at 13224 n.7.

<sup>12</sup> *Id.* at 13223.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

section indicating that the single name RF level risk management MADs are reviewed and analyzed (at least monthly) prior to implementing any single name RF level parameter updates into the risk management system.<sup>17</sup>

ICC proposes automatic daily updates for single name RF level risk management MADs because these risk factors benefit from daily updates.<sup>18</sup> Specifically, market responses for single name RFs are sensitive to rapidly changing single name risk factor-specific market conditions.<sup>19</sup> Automatic updates allow ICC to timely capture significant MAD changes and minimize the cumulative effect of MAD changes between two parameter updates, thereby reducing the level of procyclicality.<sup>20</sup> Currently, Section 1.7.1 of the RPSRP indicates that automatic updates to the risk management MADs are more suitable for index RFs than single-name RFs. Because automatic updates are suitable for risk management MADs for both single names and indexes, ICC proposes deleting the suitability comparison.<sup>21</sup> The Proposed Rule Change would instead indicate that single-name RFs also exhibit a dynamic market response to rapidly changing single-name RF-specific market conditions, suitable for and benefitting from automatic RM MAD updates, consistent with the above described rationale for implementing automatic daily updates for single name RF level risk management MADs.

## 2. APC Measure for CDS Index Options

The Proposed Rule Change would also add more detail to the RPSRP's and

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<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 13223 n.5.

<sup>20</sup> *Id.* at 13225.

<sup>21</sup> *Id.* at 13223.

RMMD’s discussion of anti-procyclicality (“APC”) parameters related to the ISR.

Procyclicality, in part, refers to the potential for an increase in margin or guaranty fund requirements during periods of economic stress to exacerbate financial distress. ICC has adopted APC parameters to help mitigate procyclicality in the ISR.<sup>22</sup> These parameters function by considering instrument price changes during extreme market events.<sup>23</sup>

ICC proposes to add text to Section 1.7.3 of the RPSRP related to the APC parameter for the ISR. Specifically, ICC proposes adding calibration details describing how the APC measure accounts for asynchronous hedging risk through use of asynchronous scenarios. Asynchronous scenarios correspond to the dislocation of the underlying CDS index versus CDS index option hedges in the event of a liquidation auction.<sup>24</sup> One example of where this could occur is when the CDS index options sub-portfolio is auctioned at a different time from the underlying CDS index sub-portfolio.<sup>25</sup> In line with this definition, the added calibration details would note that, for options instruments, the asynchronous scenarios are constructed such that options prices are not consistent with the CDS index price levels.<sup>26</sup> ICC proposes these changes to increase the clarity of, and provide additional detail for, ICC’s description of its parameter setting methodology, in line with recommendations from an independent validation report.<sup>27</sup> To account for the added detail to Section 1.7.3, ICC proposes amending a table that

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<sup>22</sup> *Id.* at 13224.

<sup>23</sup> *Id.*

<sup>24</sup> Notice, 90 FR at 13224 n.8.

<sup>25</sup> *Id.*

<sup>26</sup> ICC also proposes adding calibration details to better describe certain aspects of its asynchronous scenarios.

<sup>27</sup> Notice, 90 FR at 13224.

describes the parameters used in ICC’s risk model. ICC proposes adding to this table a reference to this asynchronous parameter, which will be described as the “underlying price dislocation factors for options extreme asynchronous price scenarios” in a table containing ICC’s core risk model parameters.<sup>28</sup>

ICC also proposes changes to Section VII.5.3 of the RMMD, similar to the changes to the RPSRP described above, to address independent validation report recommendations.<sup>29</sup> The Proposed Rule Change would add text describing synchronous and asynchronous hedging risk for index options as they relate to equations already included in the RMMD.<sup>30</sup> The Proposed Rule Change would also add text describing the different calculations that ICC performs for synchronous and asynchronous scenarios, and where to find information related to the index RF-specific price dislocation factor in the index option context. The Proposed Rule Change would also add calibration details related to the mechanics of ICC’s use of asynchronous scenarios in the index option context.

ICC’s proposal would also revise Section VII.5.3 of the RMMD to make changes to how it determines the underlying price dislocation factors used in asynchronous scenarios for index options. Currently, the underlying price dislocation factors for asynchronous scenarios in the index option context are set to a specific value in the RMMD. The Proposed Rule Change would determine these underlying price dislocation

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<sup>28</sup> *Id.* This table also includes additional columns describing information including the review approach, review frequency, reviewer, type, and name for the core risk model parameters.

<sup>29</sup> Notice, 90 FR at 13224.

<sup>30</sup> Synchronous hedging risk stress scenarios correspond to the preservation of the underlying CDS index versus CDS index option hedges in the event of a liquidation auction. Here index option prices would directly reflect the observed underlying index levels. *Id.* at 13224 n.8.

factors by considering a ratio between peak price decreases or increases. ICC proposes these changes to potentially improve the accuracy of the underlying price dislocation factors by using a potentially shifting estimate, rather than a static number.<sup>31</sup>

### 3. Risk Factor Level MaxLoss

ICC proposes changes to Section III.2 of the RMMD to make the CDS index and CDS single name MaxLoss boundary condition more stable and conservative.<sup>32</sup> This boundary condition consists of the sum of all applicable RF level maximum loss quantities. ICC considers this maximum loss when calculating the final initial margin requirement for a particular portfolio. ICC determines this maximum loss separately for CDS index positions and CDS single name positions.

With respect to CDS index positions, ICC currently considers (i) the loss responses of a portfolio's CDS index positions alone and (ii) the loss responses of a portfolio's CDS index positions and CDS index option positions combined. The Proposed Rule Change would eliminate the components of the MaxLoss boundary conditions that consider the loss responses of a portfolio's CDS index positions alone. Instead, ICC would consider the loss responses of a portfolio's CDS index positions and CDS index option positions combined, as associated with extreme price moves.<sup>33</sup> Considering loss responses associated with extreme price moves for a portfolio's CDS index and CDS index option positions combined could potentially lead to larger losses for these sub-portfolios, which would make the MaxLoss boundary condition more

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<sup>31</sup> *Id.* at 13224-25.

<sup>32</sup> *Id.* at 13224.

<sup>33</sup> ICC would continue to consider loss responses accounting for the liability associated with the defaulting net protection buyers and sellers for the combined index and index option positions.

conservative.<sup>34</sup>

With respect to single name positions, when determining the MaxLoss boundary condition, there is no CDS single-name option for ICC to consider.<sup>35</sup> Accordingly, ICC does not propose any changes related to considering options, as with CDS index positions. However, ICC proposes to incorporate the extreme price moves described above. Currently, ICC considers only the liability associated with defaulting net protection buyers and sellers for a given single name. ICC proposes considering portfolio responses to extreme price moves alongside this existing liability. Similar to the changes to CDS index positions described above, ICC is making this change to make the MaxLoss boundary condition for single names more conservative as well.<sup>36</sup>

#### 4. Minor Corrections, Clarifications, and Additions

Finally, the Proposed Rule Change would also make minor corrections, clarifications, and additions to the RPSRP and RMMD. Currently, Section 1.7.1 of the RPSRP indicates that ICC estimates and reviews the univariate single name ISR parameters and their assumptions at least on a monthly basis. ICC proposes to remove the reference to single names so that this provision indicates that ICC estimates and reviews the univariate ISR parameters and their assumptions at least monthly. Given that ICC's reviews encompass both single name and index ISR parameters, it is unnecessary to specify single names here.<sup>37</sup>

Section 1.7.1 of the RPSRP also currently indicates that, on a monthly basis,

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<sup>34</sup> Notice, 90 FR at 13224.

<sup>35</sup> ICC currently clears options on certain CDS indices only. *See* <https://www.ice.com/credit-derivatives/options>.

<sup>36</sup> Notice, 90 FR at 13224.

<sup>37</sup> *Id.* at 13223.

ICC’s Risk department presents to, and reviews with, the ICC Risk Working Group the performed analysis (meaning the estimation and review of the univariate ISR parameters and their assumptions), and any proposed parameter updates. ICC’s proposal would add language indicating that ICC’s Risk department presents any “additional” proposed parameter updates, rather than just any proposed parameter updates, to the ICC Risk Working Group. ICC proposes this change to clarify that ICC’s Risk department presents to and reviews with the ICC Risk Working Group not only the automatic parameter updates described in the RPSRP, but also any proposed parameter updates beyond the automatic parameter updates.<sup>38</sup>

ICC’s proposal would also create a revision history in the RMMD and adjust the revision history in the RPSRP. The addition of a revision history in the RMMD and the edits to the RPSRP revision history would capture the proposed changes described above.

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act requires the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the organization.<sup>39</sup> Under the Commission’s Rules of Practice, the “burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization [‘SRO’] that proposed the rule change.”<sup>40</sup>

The description of a proposed rule change, its purpose and operation, its effect,

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<sup>38</sup> *Id.* at 13223-24.

<sup>39</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>40</sup> Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,<sup>41</sup> and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.<sup>42</sup> Moreover, “unquestioning reliance” on an SRO’s representations in a proposed rule change is not sufficient to justify Commission approval of a proposed rule change.<sup>43</sup>

After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act<sup>44</sup> and Rule 17Ad-22(e)(6)(i)<sup>45</sup> thereunder, as described in detail below.

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

Under Section 17A(b)(3)(F) of the Act, ICC’s rules, among other things, must be “designed to promote the prompt and accurate clearance and settlement of securities transactions and . . . assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible . . . .”<sup>46</sup> Based on a review of the record, and for the reasons discussed below, ICC’s proposed rule change is consistent with Section 17A(b)(3)(F).

ICC proposes several changes that mitigate procyclicality. The Proposed Rule

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<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Susquehanna Int’l Group, LLP v. Securities and Exchange Commission*, 866 F.3d 442, 447 (D.C. Cir. 2017).

<sup>44</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>45</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>46</sup> 15 U.S.C. 78q-1(b)(3)(F).

Change would automatically update the risk management mean absolute deviation parameters for CDS single name risk factors daily rather than monthly. These automatic daily updates allow ICC to timely capture significant MAD changes and minimize the cumulative effect of MAD changes between two parameter updates, thereby reducing the level of procyclicality.<sup>47</sup>

ICC's proposal would also enhance calibration details and documentation related to the anti-procyclical condition measure for CDS index options. Specifically, ICC proposes to add details and descriptions regarding how ICC addresses asynchronous and synchronous scenarios in its APC measures. ICC also proposes adjusting how it determines underlying price dislocation factors used in asynchronous scenarios for index options to consider a ratio between peak price decreases and increases rather than using a specific value. By more completely addressing these asynchronous and synchronous scenarios—particularly the asynchronous scenarios—and adjusting the method of determining underlying price dislocation factors, ICC strengthens its APC parameters.

The Proposed Rule Change would also update the calculation of the risk factor level MaxLoss. Specifically, ICC would make the CDS index and CDS single name MaxLoss boundary condition more stable and conservative by adjusting these conditions to consider sub-portfolio loss responses associated with extreme price moves and, in some cases, eliminating the need to consider index-only portfolio loss responses. These changes make the MaxLoss boundary conditions more conservative because they potentially may lead to larger losses for sub-portfolios.<sup>48</sup>

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<sup>47</sup> Notice, 90 FR at 13225.

<sup>48</sup> Notice, 90 at 13224.

Reducing the level of procyclicality helps to ensure that ICC collects initial margin sufficient to cover its credit exposures to its Clearing Participants without adding financial stress. This supports Clearing Participants' ability to satisfy margin requirements, and therefore ICC's ability to continue operating as a central counterparty with the financial resources necessary to promptly and accurately clear and settle CDS transactions and safeguard securities and funds. Thus, these proposed changes are consistent with Section 17A(b)(3)(F) of the Act.<sup>49</sup>

ICC also proposes changes to correct, clarify, and add to the RPSRP and RMMD. ICC's proposal would clarify that the ICC Risk department's estimates and reviews of univariate ISR parameters and their assumptions encompass both single name and index ISR parameters. The Proposed Rule Change would also add language indicating that the ICC Risk Department presents to and reviews with the ICC Risk Working Group not only the automatic parameter updates described in the RPSRP but also any proposed parameter updates beyond the automatic parameter updates. These proposed changes clarify what ICC personnel are presenting and reviewing in certain situations, helping to ensure that all relevant information is presented and reviewed as required. This helps to ensure that individuals and groups at ICC are appropriately informed, which enhances their ability to make decisions that allow ICC to promptly and accurately clear and settle CDS transactions and safeguard securities and funds.

Accordingly, the Proposed Rule Change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>50</sup>

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<sup>49</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>50</sup> 15 U.S.C. 78q-1(b)(3)(F).

B. Consistency with Rule 17Ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) requires ICC to “establish, implement, maintain and enforce written policies and procedures reasonably designed to . . . cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market . . . .”<sup>51</sup> Based on a review of the record, and for the reasons discussed below, ICC’s proposed rule change is consistent with Rule 17Ad-22(e)(6)(i).

Among other things, in establishing policies and procedures for margin, a covered clearing agency generally should consider whether its margin model, to the extent practicable and prudent, limits the need for destabilizing, procyclical changes.<sup>52</sup> ICC’s proposed changes make its initial margin requirements less procyclical. For example, by requiring automatic updates of the risk management MAD parameters for CDS single name risk factors daily rather than monthly, ICC would timely capture significant MAD changes and minimize the cumulative effect of MAD changes between two parameter updates, thereby reducing procyclicality.<sup>53</sup> By more completely describing the APC measure for index options and changing the price dislocation factor from a static number to a ratio, ICC strengthens its APC measure and better addresses procyclicality in its ISR and ultimately its margin calculations.<sup>54</sup> By adjusting the CDS index and CDS single

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<sup>51</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>52</sup> Standards for Covered Clearing Agencies, Exchange Act Release No. 78961 (Sept 28, 2016), 81 FR 70786, 70819 (Oct 13, 2016) (S7-03-14).

<sup>53</sup> Notice, 90 FR at 13225.

<sup>54</sup> *Id.* at 13224.

name MaxLoss boundary conditions to consider sub-portfolio loss responses associated with extreme price moves and, in some cases, eliminating the need to consider index-only portfolio loss responses, ICC makes its MaxLoss boundary conditions more conservative. This allows ICC to better avoid uneconomical portfolio level initial margin requirements.<sup>55</sup> Because these proposed changes work to minimize procyclicality, their establishment is reasonably designed to establish a risk-based margin system that covers ICC's credit exposures to its participants and considers, and produces, margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.

Accordingly, the Proposed Rule Change is consistent with the requirements of Rule 17Ad-22(e)(6)(i).<sup>56</sup>

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<sup>55</sup> ICC Risk Management Model Description, filed as confidential Exhibit 5B.

<sup>56</sup> 17 CFR 240.17Ad-22(e)(6)(i).

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, Section 17A(b)(3)(F) of the Act<sup>57</sup> and Rule 17Ad-22(e)(6)(i).<sup>58</sup>

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act that the proposed rule change (SR-ICC-2025-001) be, and hereby is, approved.<sup>59</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>60</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>57</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>58</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>59</sup> In approving the proposed rule change, the Commission considered the proposal's impacts on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>60</sup> 17 CFR 200.30-3(a)(12).