

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72437; File No. SR-ICC-2014-06)

June 19, 2014

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change to Provide for the Clearance of Additional Non-Investment Grade Instruments on Standard North American Corporate Single Name Reference Entities

I. Introduction

On April 25, 2014, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-ICC-2014-06 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on May 14, 2014.³ The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

ICC is proposing to expand its product offering to provide for the clearance of additional non-investment grade instruments on Standard North American Corporate Single Name reference entities. ICC has stated that the term “non-investment grade” refers to those Standard North American Corporate Single Names which reference an entity that has been assigned a debt rating of below “BBB-” by Moody’s, below “Baa3” by S&P, or is not rated.

ICC has also stated that the risk profiles (as related to underlying debt rating) of these new non-investment grade instruments on Standard North American Corporate Single Name

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-72124 (May 8, 2014), 79 FR 27669 (May 14, 2014) (SR-ICC-2014-06).

reference entities are similar to certain Standard North American Corporate Single Name and Standard Emerging Sovereign Single Name CDS contracts currently cleared at ICC with similar debt ratings to the proposed non-investment grade instruments. ICC currently clears investment grade instruments on Standard North American Corporate Single Name reference entities. ICC contends that the debt ratings of the entities that these contracts reference may change over time, resulting in an investment grade single name becoming a non-investment grade single name. ICC states that it already clears eleven non-investment grade instruments on Standard North American Corporate Single Name reference entities as a result of such changes. ICC also states that it clears certain Standard Emerging Sovereign Single Name CDS contracts, which reference countries with debt ratings similar to the additional non-investment grade instruments on Standard North American Corporate Single Name reference entities that ICC is proposing to clear.

ICC has also stated that the additional non-investment grade instruments on Standard North American Corporate Single Name reference entities have terms consistent with the Standard North American Corporate Single Names currently cleared by ICC and governed by Section 26B of the ICC Rules.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁴ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable

⁴ 15 U.S.C. 78s(b)(2)(C).

to such self-regulatory organization. Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency are 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, in general, to protect investors and the public interest. As part of the process of preparing this order, the Commission reviewed information and representations of ICC.

The Commission finds that the proposed rule change is consistent with Section 17A of the Act⁶ and the rules thereunder applicable to ICC. The proposed rule change will provide for clearing of new CDS contracts on non-investment grade reference entities. These contracts are substantially similar to the Standard North American Corporate Single Name contracts currently cleared by ICC, and the new contracts will be cleared pursuant to ICC's existing clearing arrangements and related financial safeguards, protections and risk management framework, including policies and procedures. The Commission believes that the proposal is therefore consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC, the safeguarding of securities and funds in the custody or control of ICC, and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.⁷

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 15 U.S.C. 78q-1.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

Specifically, the Commission finds that clearing of the new non-investment grade instruments on Standard North American Corporate Single Name reference entities by ICC is consistent with the requirements of Rule 17Ad-22.⁸ In particular, in terms of financial resources, ICC represents that its existing margin methodology, when applying to the clearing of the new contracts, will be reasonably designed to provide sufficient margin to cover ICC's credit exposure to its clearing members from clearing the existing contracts and the new contracts,⁹ consistent with the requirements of Rule 17Ad-22(b)(2).¹⁰ In addition, based on representations and information provided by ICC, under its existing methodology, ICC's Guaranty Fund, together with the required margin, will provide sufficient financial resources to support the clearing of the additional contracts consistent with the requirements of Rule 17Ad-22(b)(3).¹¹ Because the new contracts are substantially similar to existing products already cleared by ICC, ICC already has in place operational and managerial resources sufficient for clearing of the additional contracts, consistent with the requirements of Rule 17Ad-22(d)(4).¹² Furthermore, ICC's existing settlement procedures and account structures will apply to the new contracts,

⁸ 17 CFR 240.17Ad-22.

⁹ ICC acknowledges that, if clearing of any non-investment grade instruments on standard North American corporate single name reference entities would result in changes to its existing margin methodology or risk policies and procedures, it would be required to submit a rule filing to seek approval of clearing such additional non-investment grade instruments and change of its risk methodology and policies and procedures.

¹⁰ 17 CFR 240.17Ad-22(b)(2).

¹¹ 17 CFR 240.17Ad-22(b)(3).

¹² 17 CFR 240.17Ad-22(d)(4).

consistent with the requirements of Rules 17Ad-22(d)(5), (12) and (15)¹³ relating to the finality, accuracy and risk mitigation of its daily settlement process. Finally, ICC will apply its existing default management policies and procedures for the new contracts, allowing it to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of clearing member insolvencies or defaults in respect of the new single names, in accordance with Rule 17Ad-22(d)(11).¹⁴

¹³ 17 CFR 240.17Ad-22(d)(5), (12) and (15).

¹⁴ 17 CFR 240.17Ad-22(d)(11).

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹⁵ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (File No. SR-ICC-2014-06) be, and hereby is, approved.¹⁷

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

Kevin M. O'Neill
Deputy Secretary

¹⁵ 15 U.S.C. 78q-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).