

SECURITIES AND EXCHANGE COMMISSION
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April 15, 2016

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Update and Formalize the ICC Stress Testing Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on March 31, 2016, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as 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. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed rule change is to update and formalize ICC’s Stress Testing Framework.

II. Self-Regulatory Organization’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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

ICC proposes to update and formalize its Stress Testing Framework. The Stress Testing Framework sets forth stress testing practices instituted by ICC, which are focused on ensuring the adequacy of systemic risk protections. The framework is designed to: articulate the types of stress tests executed and the main purpose of each type of test; describe how stress tests are conducted; define the actual test scenarios currently executed; outline the range of remedial actions available (which, depending on the results, may include enhancements to the risk methodology or certain Clearing Participant ("CP") specific action); and explain how stress test results are used in the governance process.

ICC continues to evolve its stress testing practices for many reasons, including an increase in the number and type of instruments eligible for clearing, and evolution of the CDS market and the cleared portfolios themselves. The stress testing framework helps ICC identify potential weaknesses in the risk management methodology currently used. As such, the framework allows ICC to identify potential model enhancements to the Initial Margin and Guaranty Fund models, as well as identify the need to exercise short term remedies based upon specific CP positions and risk of exposure prior to introduction of model enhancements.

The framework outlines the stress test methodology employed by ICC. During the execution of stress testing, the ICC Risk Department ("Risk Department") applies the standard set of pre-defined Stress Test Scenarios (as defined on the next page) against actual portfolios, sample portfolios derived from currently cleared positions, and expected future portfolios, as appropriate, to generate hypothetical profits or losses. The

Risk Department compares the hypothetical losses to the available funds from the Initial Margin requirements and Guaranty Fund contribution related to the selected portfolios. A scenario deficiency is identified in the event that the hypothetical loss exceeds the protection provided by the available collateral assets and mutualization funds. Depending on the plausibility of the stress scenarios and the frequency and severity of any resulting deficiencies, the Risk Department may recommend enhancements to the risk methodology.

ICC utilizes certain predefined scenarios for its stress testing, which fall into three standard categories: (i) historically observed extreme but plausible market scenarios; (ii) historically observed and hypothetically constructed (forward looking) extreme but plausible market scenarios with a baseline credit event; and (iii) extreme model response tests (collectively, “Stress Test Scenarios”). Discordant scenarios (i.e. scenarios under which selected risk factors move in opposite directions; commonly the behavior deviates from historically observed behavior) are applied to certain instruments to account for discordant price moves.

ICC applies the Stress Test Scenarios to a variety of portfolios. Specifically, ICC applies the Stress Test Scenarios to all currently cleared portfolios. The Risk Department may also apply the Stress Test Scenarios to sample portfolios obtained from currently cleared portfolios. The Risk Department may also apply the Stress Test Scenarios to staff-constructed, expected future portfolios, as appropriate, to mimic expected future portfolios upon the launch of new services. In this case, the stress test analysis is presented to and reviewed by the Risk Committee prior to the launch of the new clearing services. ICC may design specific portfolio sets to test the validity of certain

model/system assumptions. The stress test results from such expected future portfolio executions are reviewed and analyzed internally, and may be used to support future model initiatives.

ICC also designs stress test analysis directed toward the identification of wrong-way risk in cleared portfolios. For every cleared portfolio, all positions in index risk factors and single name risk factors that exhibit high degree of association with the considered CP are used to create a sub-portfolio which will be subjected to additional stress test analysis. The constructed sub-portfolio is subjected to the same Stress Test Scenarios utilized by ICC.

The framework also describes ICC's reverse stress testing (Guaranty Fund Adequacy Analysis) practices. The purpose of the adequacy analysis is to provide estimates for the level of protection achieved by the clearinghouse via its Initial Margin and Guaranty Fund models. In performing its analysis, ICC considers a combination of adverse price realizations and idiosyncratic credit events associated with reference obligations on which the stress tested CP sold protection. The Stress Testing Framework also describes the correlation sensitivity analysis performed by ICC, based on Monte Carlo simulations, as well as the additional recovery rate sensitivity analysis.

The framework also details how stress testing is utilized in ICC's governance process. ICC maintains a framework to ensure that the Risk Committee and Board are provided the appropriate level of transparency into the Risk Department's stress test results and contemplated methodology changes. Stress testing results are reviewed, at a minimum, by the Risk Department weekly. Additionally, stress testing results are provided to the Risk Committee weekly and a report of such results is presented to the

Risk Committee on a monthly basis. Ad hoc reviews of the stress testing results may be undertaken at the discretion of the Chief Risk Officer.

In the event of any deficiencies noted upon stress testing, the Risk Department must report such deficiencies to ICC senior management and the Risk Committee, and either (a) provide analysis that the results do not highlight a significant weakness in the stress testing or risk methodology; or (b) recommend enhancements to the stress testing or risk methodology. ICC senior management and the Risk Committee will review and recommend any stress testing or risk methodology enhancements to the Board, who is responsible for approval. The Risk Department may also choose to add new scenarios and portfolios in response to deficiencies noted upon stress testing; in this case, the Risk Department will discuss with the Risk Committee, who will recommend to the Board, who is responsible for approval.

The Risk Department maintains a standard set of Stress Scenarios and portfolios (namely actual portfolios, sample portfolios derived from currently cleared portfolios, and expected future portfolios) that are executed on a regular basis. In the event that a scenario or portfolio in the standard set is no longer applicable, or has been superseded by new scenarios or portfolios, the Risk Department may wish to retire or modify the outdated scenario or portfolio. In this case, the Risk Department consults with ICC senior management; conducts analysis to support the recommendation; discusses the analysis and obtains a recommendation from the Risk Committee; and presents the final analysis to the Board approval. In the interest of prudent risk management, the Risk Department may wish to add scenarios and/or portfolios to the standard set; Risk Committee or Board

approval is not required unless such scenarios and/or portfolios are added in response to stress testing deficiencies, as described above.

Previous versions of the framework included the Risk Working Group in the governance structure, as ICC consulted with the Risk Working Group as it worked to develop its initial stress testing approach and appropriate scenarios. As ICC now has a fully developed approach, stress testing remains focused on data analysis and reporting results, which are addressed at the Risk Committee and Board level. Thus, to reflect current governance practices, references to the Risk Working Group have been removed.

Section 17A(b)(3)(F) of the Act³ 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 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 17(A)(b)(3)(F)⁴, because ICC believes that the proposed rule changes will promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions. ICC's Stress Testing Framework describes ICC's stress testing practices, which are designed to ensure the adequacy of systemic risk protections. The Stress Testing Framework sets forth the methodology by which ICC evaluates potential portfolio profits/losses, compared to the Initial Margin and Guaranty Fund funds maintained, in order to identify any potential

³ 15 U.S.C. 78q-1(b)(3)(F).

⁴ Id.

weakness in the risk methodology. As such, the proposed rule changes are designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the meaning of Section 17A(b)(3)(F)⁵ of the Act. The proposed changes will also satisfy the requirements of Rule 17Ad-22⁶. In particular, the Stress Testing Framework contains stress testing practices designed to ensure that ICE Clear Credit maintains sufficient financial resources to withstand a default by the CP family to which it has the largest exposure in extreme but plausible market conditions, and that as a registered clearing agency acting as a central counterparty for security-based swaps, ICC shall maintain additional financial resources sufficient to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions,⁷ consistent with the requirements of Rule 17Ad-22(b)(3)⁸.

B. Self-Regulatory Organization's Statement on Burden on Competition

ICC does not believe the proposed rule changes would have any impact, or impose any burden, on competition. To the extent the Stress Testing Framework impacts CPs, the Stress Testing Framework applies uniformly across all CPs. Therefore, ICC does

⁵ Id.

⁶ 17 CFR 240.17Ad-22.

⁷ Pursuant to confirmation via email with ICC on April 13, 2016, staff in the Division of Trading and Markets modified this sentence to add the reference to ICC maintaining sufficient financial resources to withstand, at a minimum, the default by the two CP families to which it has the largest exposures in extreme but plausible market conditions to conform to the requirements of Rule 17Ad-22(b)(3).

⁸ 17 CFR 240.17Ad-22(b)(3).

not believe the proposed rule changes impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

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 (i) as the Commission may designate up to 90 days of such date 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-2016-005 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICC-2016-005. 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 a.m. and 3:00 p.m. 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.theice.com/clear-credit/regulation>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2016-005 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.⁹

Brent J. Fields
Secretary

⁹ 17 CFR 200.30-3(a)(12).