

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77771; File No. SR-ICC-2016-007)

May 5, 2016

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Revise the ICC End-of-Day Price Discovery Policies and Procedures

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 April 22, 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 revise the ICC End-of-Day Price Discovery Policies and Procedures to change the calculation of single name Firm Trade notional limits to be at a Clearing Participant (“CP”) affiliate group level. These revisions do not require any changes to the ICC Clearing Rules.

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

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

ICC proposes revising its End-of-Day Price Discovery Policies and Procedures to change the calculation of single name Firm Trade notional limits to be at a CP affiliate group level. ICC believes such revisions will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions cleared by ICC. The proposed revisions are described in detail as follows.

As part of ICC's end-of-day price discovery process, ICC CPs are required to submit end-of-day prices for specific instruments related to their open interest at ICC, in accordance with ICC Clearing Rule 404(b) and ICC procedures. ICC determines end-of-day levels directly from these CP price submissions using a proprietary algorithm. To encourage CPs to provide high quality end-of-day submissions, on random days, ICC selects a subset of instruments which are eligible for Firm Trades. In order to determine Firm Trade requirements, the algorithm sorts and ranks all CP submissions and identifies "crossed and/or locked markets." Crossed markets are pairs of CP submitted prices generated by the sorting and ranking process for which the bid price of one CP is above the offer price of the matched CP. The algorithm identifies locked markets, where the bid and the offer are equal, in a similar fashion.

Certain crossed and/or locked markets are designated as Firm Trades and CPs are entered into cleared transactions. ICC establishes pre-defined notional amounts for Firm Trades. No single Firm Trade can have a larger notional amount than specified by the pre-defined notional amount for the relevant instrument. On a given Firm Trade day, all

potential-trades resulting from the cross-and-lock algorithm in any Firm Trade eligible instrument are designated Firm Trades, unless they breach a CP's notional limits.

Currently single name Firm Trade notional limits are set at the CP level. ICC designed the Firm Trade system to incentivize trading desks to provide quality end-of-day price submissions for use in its end-of-day price discovery process, while limiting the total overnight risk that a given institution may be required to manage in case of submission errors or outlying pricing submissions which may lead to Firm Trades. One mechanism introduced to provide these protections is single name Firm Trade notional limits per CP. At the time of its introduction, this mechanism achieved its goal of limiting overnight risk limits per institution. However, with the increase in client clearing and in multiple CP memberships per holding company, the limit provided to a given institution is multiples of that originally contemplated.

In addition, because of recent changes to ICC's End-of-Day Price Discovery Policies and Procedures to extend the process for determining Firm Trades to include all submissions, including those classified as outlying pricing submissions (or "obvious errors"),³ CPs are eligible to receive Firm Trades on a wider range of price submissions. Due to the broadened scope of the Firm Trade process, there is heightened interest in adjusting the allocation process so that CPs are not over-penalized for Firm Trades in terms of overnight risk exposure.

In order to maintain the original intent of the end-of-day price discovery process, ICC proposes changes to its End-of-Day Price Discovery Policies and Procedures to implement single name Firm Trade notional limits at the CP affiliate group level, as

³ See Securities Exchange Act Release No. 34-74053 (January 14, 2015), 80 FR 2985 (January 21, 2015) (SR-ICC-2015-001).

opposed to the CP level. The proposed changes will return the process to its original design and limit the total overnight risk that a given institution may be required to manage in the case of submission errors or outlying pricing submissions which may lead to Firm Trades.

A “CP affiliate group” is defined as the set of all affiliated CPs (i.e. any CPs that own, are owned by, or are under common ownership with another CP). As the sequence of crosses is considered, the executed single name Firm Trade notional value will be tracked for all CPs in a CP affiliate group. No additional single name Firm Trades will be executed against any CP in a CP affiliate group once the CP affiliate group notional limit for single name Firm Trades is reached. There are no changes to the Firm Trade algorithm as a result of these changes. Setting single name Firm Trade notional limits on an affiliate group basis is consistent with price submission practices where end-of-day submissions from multiple affiliated entities often reflect the institution’s overall view on the market.

The proposal returns single name Firm Trade notional limits to the original design while maintaining the system’s price submission incentives. All CPs within an affiliate group are still subject to potential Firm Trades for any given submission, on a randomized basis. Though Firm Trade notional limits will be implemented at the CP affiliate group level, the potential implication for a given trading desk of providing an off-market submission for a given instrument remains the same.

ICC is confident that the changes will have no effect to the integrity and effectiveness of the Firm Trade process. As noted above, under the proposed approach, CPs will still be subject to potential Firm Trades for any given price submission on a

randomized basis. As such, ICC believes there will be no change in price submission behavior as a result of the changes, and the Firm Trade process will remain an effective tool for ensuring quality price submissions.

Section 17A(b)(3)(F)⁴ of the Act requires, among other things, that the rules of a clearing agency be designed to protect investors and the public interest 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),⁵ because ICC believes that the proposed rule changes will assure the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, as the proposed revisions limit the total overnight risk that a given institution may be required to manage as a result of the Firm Trade process. As such, the proposed 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)⁶ of the Act.

Section 17A(b)(3)(F)⁷ of the Act also requires that the rules of a clearing agency are not designed to permit unfair discrimination among participants in the use of the clearing agency. ICC believes that the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC, in

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ Id.

⁶ Id.

⁷ Id.

particular, to Section 17(A)(b)(3)(F),⁸ because the proposed changes correct unintended consequences of the Firm Trade system as related to CP affiliate groups by eliminating the potential for a CP affiliate group to be overly penalized or disadvantaged in the Firm Trade process. Such changes ensure that no CP affiliate group is overly penalized or disadvantaged in the Firm Trade process for maintaining multiple CP memberships at the clearing house. As such, the proposed changes are designed to avoid unfair discrimination among participants in the use of the clearing agency within the meaning of Section 17A(b)(3)(F)⁹ of the Act.

Finally, Section 17A(b)(3)(D)¹⁰ of the Act requires that the rules of a clearing agency provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. ICC believes that the proposed 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)(D),¹¹ because under the proposed changes all CPs, including those within an affiliate group, remain subject to potential Firm Trades for any given submission, on a randomized basis. For example, in the instance where only one CP within an affiliate group provides an off market submission resulting in a Firm Trade, the notional limit will be the full notional limit amount. The proposed changes provide risk mitigation by limiting the cumulative risk exposure that one institution may be required to hold overnight as a result of a trading desk providing an off-market

⁸ Id.

⁹ Id.

¹⁰ 15 U.S.C. 78q-1(b)(3)(D).

¹¹ Id.

submission multiple times, for affiliated entities in a CP affiliate group. As such, the proposed changes provide for the equitable allocation of reasonable dues, fees, and other charges among ICC's participants within the meaning of Section 17A(b)(3)(D)¹² of the Act.

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

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition. The proposed changes to the calculation of single name Firm Trade notional limits apply uniformly across all CPs. ICC has identified an increase in multiple CP memberships per holding company, as holding companies maintain membership as a self-clearing member ("SCM") and as a futures commission merchant ("FCM") / broker-dealer ("BD"). Under the current system, those CPs who maintain multiple memberships may be unduly burdened under ICC's end-of-day process, which was established prior to this membership construct. Such changes will correct this discrepancy. Further, such changes do not improperly overly burden single CPs in furtherance of the purposes of the Act. The notional limits are designed to balance the need to incentivize CPs to provide quality end-of-day submissions with the maintenance of a safe and secure clearing system. Therefore, ICC does not believe the 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.

¹²

Id.

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-2016-007 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-2016-007. 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.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-2016-007 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.¹³

Robert W. Errett
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).