

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78448; File No. SR-ICC-2016-010)

July 29, 2016

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Revise the ICC Risk Management Model Description Document and the ICC Risk Management 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 July 15, 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 Risk Management Framework to incorporate certain risk model enhancements. ICC also proposes minor clarifying edits to the ICC Risk Management Model Description document and the ICC Risk Management Framework. These revisions do not require any changes to the ICC Clearing Rules (“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 risk management framework to incorporate risk model enhancements related to the single name credit default swap ("CDS") liquidity charge methodology. ICC believes such revisions will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions for which it is responsible. The proposed revisions are described in detail as follows.

ICC proposes a revised approach to computing single name CDS liquidity charges. Specifically, ICC proposes to introduce minimum instrument liquidity requirements independent of instrument maturities. ICC's current approach features instrument liquidity requirements that decay with time to maturity for fixed credit spread levels. The proposed approach introduces minimum liquidity requirements for individual instruments, independent of time to maturity for the considered instruments, and thus establishes minimum liquidity charges that do not decay over time as maturity is approached. The revised calculation for single name CDS liquidity charges at the instrument level incorporates a price-based bid-offer width floor component to provide stability of requirements, as well as a dynamic spread-based BOW component to reflect the additional risk associated with distressed market conditions. The values of such price-based BOW and spread-based BOW are fixed factors, which are subject to at least monthly reviews and updates by ICC Risk Management Department with consultation with the Risk Committee.

ICC also proposes enhancements to the liquidity charge calculation at the risk factor level. The current risk factor level liquidity requirements are based on forward CDS spread levels. Under the revised calculation, liquidity charges at the risk factor level are computed by first calculating the liquidity requirements for each individual instrument position in the portfolio, and then summing all instrument liquidity requirements for positions with the same directionality, i.e. bought or sold protection. The risk factor liquidity requirement is the greatest liquidity requirement associated with either the sum of all bought protection position liquidity requirements, or the sum of all sold protection position liquidity requirements. There are no changes to the liquidity charge calculation at the portfolio level.

ICC expects these enhancements will ensure more stable liquidity requirements for instruments across the curve. Further, the enhancements simplify ICC's liquidity charge methodology, which promotes ease of understanding. As stated above, the current risk factor level liquidity requirements are based on forward CDS spread levels and are, in general, more difficult to replicate due to the inherited need for knowledge of spread levels across the entire term structure ("curve"). Additionally, to facilitate replication of the enhanced liquidity charge calculations, ICC will provide end-of-day data for instruments in which clients have open positions, allowing for additional transparency and easier replication for clients who wish to estimate liquidity charges for hypothetical and current positions.

ICC also proposes updating liquidity scaling factors to reflect the methodology enhancements. There is no price based component under the current methodology. To reflect the introduction of a price based component, the liquidity scaling factors have

been decomposed and adjusted in order to maintain the same overall composition with both price and spread based components.

ICC also proposes minor clarifying edits to the ICC Risk Management Framework and the ICC Risk Management Model Description document. ICC added language to the Overview section of the Risk Management Framework to identify which ICC documents provide additional details regarding ICC's risk management approach. ICC added language to the Governance and Organization section of the Risk Management Framework to note that the reporting line of ICC's Chief Risk Officer to the Chairperson of the ICC Risk Committee, who is also a non-executive manager on the Board, allows the Chief Risk Officer to bring any issues or concerns directly to the Board without intermediation by other ICC personnel. ICC also made edits to the Governance and Organization section of the Risk Management Framework to revise the list of documents reviewed by the Risk Committee on at least an annual basis to include the ICC End-of-Day Price Discovery Policies and Procedures and the ICC Operational Risk Management Framework.³ Finally, ICC added minor clarifying details to the technical calculation descriptions set forth in the ICC Risk Management Model Description document, specifically in the Recovery Rate Sensitivity Risk Analysis, Interest Rate Sensitivity Risk Analysis, Spread Risk Analysis, and Guaranty Fund Size Estimation sections.

³ Staff has confirmed this statement, corrected to conform with the proposed revised Risk Management Framework filed with the Commission, with ICC via email on July 26, 2016.

Section 17A(b)(3)(F) of the Act⁴ 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)⁵, 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, as the proposed changes provide clarity and enhance risk policies, resulting in enhanced stability and conservative bias of requirements, and thereby facilitate ICC's ability to promptly and accurately clear and settle its cleared CDS contracts. In addition, the proposed revisions are consistent with the relevant requirements of Rule 17Ad-22.⁶ In particular, the risk model enhancements proposed in the Risk Management Model Description document will enhance the financial resources available to the clearing house by promoting stability and conservative bias of requirements, and are therefore reasonably designed to meet the margin and financial resource requirements of Rule 17Ad-22(b)(2-3)⁷. The risk model enhancements will also result in a more transparent and simplified liquidity charge approach, and are therefore consistent with the requirements of Rule 17Ad-22(d)(8)⁸.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ Id.

⁶ 17 C.F.R. 240.17Ad-22.

⁷ 17 C.F.R. 240.17Ad-22(b)(2-3).

⁸ 17 C.F.R. 240.17Ad-22(d)(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. The risk model enhancements and clarifying changes apply uniformly across all market participants. Therefore, ICC does 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 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 the 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-2016-010 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-2016-010. 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-2016-010 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

Robert W. Errett
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).