SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73877; File No. SR-ICC-2014-18)

December 18, 2014

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Granting Approval of Proposed Rule Change to Revise the ICC Risk Management Framework

## I. Introduction

On October 22, 2014, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2014-18 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 November 3, 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 of the Proposed Rule Change

ICC is proposing to revise the ICC Risk Management Framework to incorporate certain risk model enhancements. The revisions do not require any changes to the ICC Clearing Rules.

ICC proposes revising the ICC Risk Management Framework to facilitate compliance with requirements under the European Market Infrastructure Regulations, specifically anti-procyclicality conditions described in Article 28 of the Regulatory Technical Standards.[4] Currently, according to ICC, it considers three levels of volatility in its Risk Management

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 34-73444 (Oct. 28, 2014), 79 FR 65270 (Nov. 3, 2014) (SR-ICC-2014-18).

4 Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 Supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to Regulatory Technical Standards on Requirements for Central Counterparties (the "Regulatory Technical Standards").

Framework to account for stable but prudent margin requirements. ICC proposes adding a fourth volatility scale that assigns a 25% weight to a stress period (currently the stress period is set to January 14, 2008 to December 31, 2008) and the remaining 75% to the immediate most recent 250 observations, consistent with Article 28(b) of the Regulatory Technical Standards. According to ICC, the revised initial margin requirements are expected to result in more conservative initial margin figures for some risk factors. In addition, ICC proposes introducing devolatilization enhancements to describe spread log-return time series that span market periods associated with different volatility regimes.

Additionally, ICC proposes a revised approach to computing index liquidity charges. As described by ICC, the enhancement consists of reducing the portfolio liquidity benefits across different index series. As part of its product offering, ICC clears credit default swap ("CDS") index series. A new series of CDS indices is issued every six months, and the new series is referred to as being "on-the-run," while previous series are referred to as being "off-the-run." ICC states that the revised calculation establishes series-specific liquidity charges by considering the series-specific positions and establishing series-specific position directionality based on the corresponding 5-year equivalent notional amount directionality. Further, to capture the market behavior around index rolls when the bid/offer width for index-roll transactions (i.e., trading the on-the-run vs. first off-the-run indices) is typically smaller than the bid/offer width of each individual leg, ICC proposes implementing time-dependent long/short liquidity charge portfolio benefits for the on-the-run and the first off-the run series. The proposed revisions to the liquidity charges are expected by ICC to result in more conservative requirements than the ones associated with the current approach.

ICC also proposes enhancements to the calculation of its concentration charges by introducing index series-specific concentration charges. According to ICC, the revised calculation establishes series-specific concentration charges for positions exceeding series-specific concentration threshold limits based on the direction of the 5-year equivalent notional amount or the net notional amount. Under the revised calculation, ICC states it will estimate series-specific concentration charge threshold limits based on the distribution of series-specific open interest information at the Clearing House. ICC believes that the estimated series-specific concentration charge threshold limits reflect the average open interest over a 5-day period. ICC expects the proposed revisions to the concentration charge will result in more conservative requirements than the ones associated with the current approach.

## III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[5] 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 to such self-regulatory organization. Section 17A(b)(3)(F) of the Act[6] 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.

---

5 15 U.S.C. 78s(b)(2)(C).

6 15 U.S.C. 78q-1(b)(3)(F).

The Commission finds that the proposed rule change is consistent with Section 17A of the Act[7] and the rules thereunder applicable to ICC. The proposed changes to the ICC Risk Management Framework are expected to impose more prudent initial margin requirements, meeting the requirements of Rule 17Ad-22(b)(1) and (2).[8] The proposed changes, when considered together with ICC's existing Guaranty Fund methodology, are expected to result in total financial resources maintained by ICC sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme but plausible market conditions in accordance with Rule 17Ad-22(b)(3).[9] Therefore, ICC's proposed changes are reasonably designed to meet the margin and financial resource requirements of Rule 17Ad-22(b)(1) – (3).[10] The Commission therefore believes that the changes will promote the prompt and accurate settlement of securities and derivatives transactions, consistent with the requirements of Section 17A(b)(3)(F) of the Act.[11]

---

7 15 U.S.C. 78q-1.

8 17 CFR 240.17Ad-22(b)(1) and (2).

9 17 CFR 240.17Ad-22(b)(3).

10 17 CFR 240.17Ad-22(b)(1) – (3).

11 15 U.S.C. 78q-1(b)(3)(F).

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 Act[12] and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (File No. SR-ICC-2014-18) be, and hereby is, approved.[14]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[15]

Kevin M. O'Neill

Deputy Secretary

---

[12] 15 U.S.C. 78q-1.

[13] 15 U.S.C. 78s(b)(2).

[14] 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).

[15] 17 CFR 200.30-3(a)(12).