SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74685; File No. SR-ICC-2014-24)

April 8, 2015

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

I. Introduction

On December 22, 2014, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2014-24 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 January 9, 2015.[3] On February 20, 2015, the Commission extended the time period in which to either approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change to April 9, 2015.[4] 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 proposes revising the ICC Risk Management Framework to incorporate risk model enhancements related to Recovery Rate Sensitivity Requirements ("RRSR"), anti-procyclicality, and ICC's Guaranty Fund ("GF") allocation methodology. ICC also proposes revisions which are intended to remove obsolete references and ensure consistency.

---

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 34-73980 (Jan. 5, 2015), 80 FR 1466 (Jan. 9, 2015) (SR-ICC-2014-24).

4 Securities Exchange Act Release No. 34-74341 (Feb. 20, 2015), 80 FR 10551 (Feb. 26, 2015) (SR-ICC-2014-24).

ICC proposes revising its Risk Management Framework to incorporate risk model parameter estimation enhancements related to the RRSR computations. ICC states that under its current ICC Risk Management Framework, recovery rate stress scenarios are explicitly incorporated in the RRSR computations and for Jump-to-Default ("JTD") considerations. The quantity RRSR is designed to capture fluctuations due to potential changes of the market expected recovery rates. In calculating the RRSR, all instruments belonging to a Risk Factor ("RF") or Risk Sub-Factor ("RSF") are subjected to Recovery Rate ("RR") stress scenarios to obtain resulting Profit/Loss ("P/L") responses, and the worst scenario response is chosen for the estimation of the RF/RSF RRSR. The JTD analysis is designed to capture the unexpected potential losses associated with credit events for assumed single-name-specific set of RR stress values. The JTD responses are determined by using minimum and maximum RR levels. Currently, the RRSR and JTD computations use the same RR stress levels.

ICC proposes separating the RR stress levels for these two computations in order to introduce more dynamic and appropriate estimations of the RR stress levels for RRSR purposes. According to ICC, the RR levels for RRSR purposes will reflect a 5-day 99% Expected Shortfall ("ES") equivalent risk measure associated with RR fluctuations. The proposal will also, as stated by ICC, eliminate index RRSR, as index RRs are not subject to market uncertainty, but rather driven by market conventions. ICC states that the dynamic feature of the RR stress level estimations is achieved by analyzing historical time series of RRs in order to calibrate a statistical model with a time varying volatility. Under this approach, ICC calculates, the RRSR will capture the exposure to RR fluctuations over a 5-day risk horizon described by 99% ES equivalent risk measure.

Additionally, ICC proposes revising its Risk Management Framework to incorporate a portfolio level anti-procyclicality analysis that features price changes observed during and immediately after the Lehman Brothers ("LB") default. In order to achieve an anti-procyclicality of Spread Response requirements, ICC proposes consideration of explicit price scenarios derived from the greatest price decrease and increase during and immediately after the LB default. According to ICC, these scenarios capture the default of a major participant in the credit market and the market response to the event. The introduced scenarios are defined in price space to maintain the stress severity during periods of low credit spread levels and high price when the Spread Response requirements computed under the current framework are expected to be lower.

Further, as explained by ICC, the price scenarios derived from the greatest price decrease and increase during and immediately after the LB default are explicitly incorporated into the GF sizing to ensure an anti-procyclical GF size behavior. ICC states that this enhancement also addresses a regulatory requirement as described in Article 30 of the Regulatory Technical Standards,[5] European Market Infrastructure Regulations.

Furthermore, ICC proposes enhancements to its GF allocation methodology. Currently, ICC states that the GF allocations reflect a risk "silo" approach, which separates each GF risk component. Under the current methodology, the allocation of GF reflects the Clearing Participants' ("CPs") own riskiness in proportion to each GF risk component size and the increase or decrease of the "silo" size. Therefore, GF allocations can significantly fluctuate in response to position changes in the portfolios of the CPs that drive the GF size. ICC proposes modifying its methodology so that the GF allocations reflect the CPs' total uncollateralized

---

5 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").

losses across all GF risk components. According to ICC, under the proposed approach, the GF allocations are independent of the distribution of the uncollateralized losses across various GF risk components or "silos" and the fluctuation of each CP's uncollateralized losses within various GF risk components or "silos." Additionally, ICC added clarifying language regarding how the GF computations are performed with explicit currency dependent expressions.

ICC also proposes certain non-substantive changes to the Risk Management Framework to address CFTC recommendations. Specifically, ICC proposes amending the Risk Management Framework to reflect ICC's current approach towards portfolio diversification, by unifying diversification and hedge thresholds and explicitly setting both to be equal to the lowest estimated sector Kendall Tau correlation coefficient. ICC also proposes clarifying language regarding how ICC meets its liquidity requirements.

Additionally, ICC proposes non-substantive changes throughout the framework to correct obsolete references. Specifically, ICC is removing language stating that the Chief Risk Officer is a dual employee of both ICC and its sister company, The Clearing Corporation. ICC is also removing language stating that The Clearing Corporation is the provider of risk management services to ICC. Furthermore, ICC is removing references to the "U.K. Financial Services Authority" and replacing with references to the "U.K. Prudential Regulatory Authority." Finally, ICC is adding "The European Securities and Markets Authority" to the sample list of competent authorities for capital adequacy regulation listed in the framework.

ICC also proposes non-substantive changes throughout the Risk Management Framework to ensure consistency. ICC is updating the mission statement contained within the document to be consistent with ICC's Board-approved mission statement. Also, ICC is modifying the frequency by which the Risk Department monitors various risk metrics from a quarterly basis to a monthly basis to reflect actual business practices.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[6] 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[7] 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 and, in general, to protect investors and the public interest.

The Commission finds that the proposed rule change is consistent with Section 17A of the Act[8] and the rules thereunder applicable to ICC, including the requirements of Rule 17Ad-22.[9] The Commission believes that the part of the proposal separating the RR stress levels for the JTD and RRSR computations would use a more robust and quantitative driven approach for establishing the RR stress scenarios, resulting in more dynamic and appropriate estimations of the RR stress levels for RRSR purposes. The Commission finds that the incorporation of the Lehman Brothers default price scenarios into the computation of the Spread Response requirements enhances the anti-procyclical feature of ICC’s risk methodology. The Commission further finds that the proposed rule change that modifies the current GF allocation methodology

---

6 15 U.S.C. 78s(b)(2)(C).

7 15 U.S.C. 78q-1(b)(3)(F).

8 15 U.S.C. 78q-1.

9 17 CFR 240.17Ad-22.

to reflect the CPs' total uncollateralized losses across all GF components regardless of the fluctuation of the CPs' uncollateralized losses with respect to each GF component would result in more stable attributions of GF contributions to individual CP/client portfolios. Finally, the Commission finds that the proposed non-substantive and clarification changes are each designed to more accurately reflect ICC's current practices.

Therefore, the Commission believes that the proposal is designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC and, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act[10] and Rules 17Ad-22(b)(1), (2) and (3).[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 Act[12] and the rules and regulations thereunder.

---

10 15 U.S.C. 78q-1(b)(3)(F).

11 17 CFR 240.17Ad-22(b)(1), (2) and (3).

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

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (File No. SR-ICC-2014-24) be, and hereby is, approved.[14]

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

Brent J. Fields
Secretary

---

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).