

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77361; File No. SR-ICC-2016-002)

March 14, 2016

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change to Provide for the Clearance of Certain Asia-Pacific Credit Default Swap Contracts

I. Introduction

On January 27, 2016, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change (SR-ICC-2016-002) to provide the basis for ICC to clear certain Asia-Pacific credit default swap (“CDS”) contracts. On January 29, 2016, ICC filed Amendment No. 1 to the proposal.³ The proposed rule change, as amended, was published for comment in the Federal Register on February 12, 2016.⁴ The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

The purpose of the proposed rule change is to adopt new rules that will provide the basis for ICC to clear certain Asia-Pacific CDS contracts. Specifically, ICC has

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, ICC deleted a factual error in the originally filed proposal that stated that no changes would be made to ICC’s Risk Management Framework. Amendment No. 1 amended and replaced the original filing in its entirety.

⁴ Securities Exchange Act Release No. 34-77079 (February 8, 2016), 81 FR 7613 (February 12, 2016) (SR-ICC-2016-002).

proposed to amend Chapter 26 of the ICC Rulebook (“ICC Rules”) to add Subchapters 26J and 26L to provide for the clearance of iTraxx Asia/Pacific CDS contracts (“iTraxx Asia/Pacific Contracts”) and Standard Asia/Pacific Sovereign CDS contracts (“SAS Contracts”, collectively with iTraxx Asia/Pacific Contracts “Asia-Pacific CDS Contracts”). The SAS Contracts will reference the Commonwealth of Australia, the Malaysian Federation, the People’s Republic of China, the Republic of Indonesia, the Republic of Korea and the Republic of the Philippines.

Additionally, ICC has proposed to amend the ICC End-of-Day Price Discovery Policies and Procedures to add two additional pricing windows to accommodate the submission of end-of-day prices relating to such Asia-Pacific CDS Contracts. Finally, ICC has proposed to amend the ICC Risk Management Framework to include the risk horizon utilized for instruments traded during Asia-Pacific hours and to amend the ICC Risk Management Model Description document to add Asia-Pacific to the list of regions to be considered in General Wrong Way Risk calculations.

ICC has represented that the iTraxx Asia/Pacific Contracts have similar terms to the CDX North American IG/HY/XO CDS contracts (“CDX NA Contracts”) currently cleared by ICC and governed by Subchapter 26A of the ICC Rules, the CDX Emerging Markets CDS contracts (“CDX EM Contracts”) currently cleared by ICC and governed by Subchapter 26C of the ICC Rules, and the iTraxx Europe CDS contracts (“iTraxx Europe Contracts”) currently cleared by ICC and governed by Subchapter 26F of the ICC Rules. ICC asserts that the proposed rules found in Subchapter 26J largely mirror the ICC Rules for CDX NA Contracts in Subchapter 26A, CDX EM Contracts in Subchapter 26C, and iTraxx Europe Contracts in Subchapter 26F, with certain modifications that

reflect differences in terms and market conventions between those contracts and iTraxx Asia/Pacific Contracts. Additionally, iTraxx Asia/Pacific Contracts will be denominated in United States Dollars.

ICC Rule 26J-102 (Definitions) will set forth the definitions used for the iTraxx Asia/Pacific Contracts. ICC has represented that the definitions are substantially the same as the definitions found in Subchapters 26A, 26C, and 26F of the ICC Rules, other than certain conforming changes.

ICC Rules 26J-309 (Acceptance of iTraxx Asia/Pacific Untranching Contracts by ICE Clear Credit), 26J-315 (Terms of the Cleared iTraxx Asia/Pacific Untranching Contract), 26J-316 (Updating Index Version of Fungible Contracts After a Credit Event or a Succession Event; Updating Relevant Untranching Standard Terms Supplement), and 26J-317 (Terms of iTraxx Asia/Pacific Untranching Contracts) will reflect or incorporate the basic contract specifications for iTraxx Asia/Pacific Contracts and, according to ICC, are substantially the same as under Subchapters 26A, 26C, and 26F of the ICC Rules.

ICC has represented that SAS Contracts have similar terms to the Standard North American Corporate Single Name CDS contracts (“SNAC Contracts”) currently cleared by ICC and governed by Subchapter 26B of the ICC Rules, the Standard Emerging Sovereign CDS contracts (“SES Contracts”) currently cleared by ICC and governed by Subchapter 26D of the ICC Rules, the Standard European Corporate Single Name CDS contracts (“STEC Contracts”) currently cleared at ICC and governed by Subchapter 26G of the ICC Rules, the Standard European Financial Corporate Single Name CDS Contracts (“STEF C Contracts”) currently cleared at ICC and governed by Subchapter 26H of the ICC Rules, and the Standard Western European Corporate Single Name CDS

contracts (“SWES Contracts”) currently cleared by ICC and governed by Subchapter 26I of the ICC Rules. ICC asserts that the proposed rules found in Subchapter 26L largely mirror the ICC Rules for SNAC Contracts in Subchapter 26B, SES Contracts in Subchapter 26D, STEC Contracts in Subchapter 26G, STEFC Contracts in Subchapter 26H, and SWES Contracts in Subchapter 26I, with certain modifications that reflect differences in terms and market conventions between those contracts and SAS Contracts. Additionally, SAS Contracts will be denominated in United States Dollars.

ICC Rule 26L-102 (Definitions) will set forth the definitions used for the SAS Contracts. “Eligible SAS Reference Entities” will be defined as “each particular Reference Entity included in the List of Eligible SAS Reference Entities,” which is a list maintained, updated and published from time to time by ICC containing certain specified information with respect to each reference entity. ICC is proposing to add the Commonwealth of Australia, the Malaysian Federation, the People’s Republic of China, the Republic of Indonesia, the Republic of Korea and the Republic of the Philippines to its List of Eligible SAS Reference Entities. If ICC determines to add or remove additional SAS Contracts from the List of Eligible SAS Reference Entities, it has represented that it will seek approval from the Commission for such contracts (or for a class of product including such contracts) by a subsequent filing. ICC asserts that the remaining definitions are substantially the same as the definitions found in Subchapters 26B, 26D, 26G, 26H, and 26I of the ICC Rules, other than certain conforming changes.

ICC Rules 26L-203 (Restriction on Activity), 26L-206 (Notices Required of Participants with respect to SAS Contracts), 26L-303 (SAS Contract Adjustments), 26L-309 (Acceptance of SAS Contracts by ICE Clear Credit), 26L-315 (Terms of the Cleared

SAS Contract), 26L-316 (Relevant Physical Settlement Matrix Updates), 26L-502 (Specified Actions), and 26L-616 (Contract Modification) will reflect or incorporate the basic contract specifications for SAS Contracts and, according to ICC, are substantially the same as under Subchapters 26B, 26D, 26G, 26H, and 26I of the ICC Rules.

Additionally, ICC has proposed to amend the ICC End-of-Day Price Discovery Policies and Procedures to add two additional pricing windows to accommodate the submission of end-of-day prices relating to such Asia-Pacific CDS Contracts. Specifically, ICC has proposed adding one pricing window at the end of the Sydney trading day to determine prices for instruments primarily traded in Sydney hours and one pricing window at the end of the Singapore trading day to determine prices for instruments primarily traded in Singapore/Hong Kong hours. ICC has represented that it will apply the same price discovery methodology to all submission windows. ICC asserts that for easier comprehension, it also consolidated information regarding the timing of all pricing windows into a table in an appendix to the policy. Accordingly, ICC has proposed replacing references throughout the document to specific pricing window times with a reference to this table. ICC has also proposed removing a reference to end-of-day risk requirements, as ICC asserts that such information is more appropriately included in the Risk Management Framework.

Finally, ICC has proposed amending the ICC Risk Management Framework to include the risk horizon utilized for instruments traded during Asia-Pacific hours and to amend the ICC Risk Management Model Description document to add Asia-Pacific to the list of regions to be considered in General Wrong Way Risk calculations.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁵ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that the 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 Act⁶ 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.

The Commission finds that the proposed rule change is consistent with the requirements of Section 17A of the Act⁷ and the rules and regulations thereunder applicable to ICC. The proposed rule change will provide for the clearing of iTraxx Asia/Pacific Contracts and SAS Contracts referencing the Commonwealth of Australia, the Malaysian Federation, the People's Republic of China, the Republic of Indonesia, the Republic of Korea and the Republic of the Philippines. The iTraxx Asia/Pacific Contracts and SAS Contracts will be cleared pursuant to ICC's existing clearing arrangements and related financial safeguards, protections and risk management procedures, as modified by the proposed rule change. The Commission therefore finds that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative

⁵ 15 U.S.C. 78s(b)(2)(C).

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

agreements, contracts, and transactions, and 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.

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 Act⁸ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-ICC-2016-002) be, and hereby is, approved.¹⁰

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Robert W. Errett
Deputy Secretary

⁸ 15 U.S.C. 78q-1.

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 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).

¹¹ 17 CFR 200.30-3(a)(12).