

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79220; File No. SR-ICC-2016-010)

November 2, 2016

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change to Revise the ICC Risk Management Model Description Document and the ICC Risk Management Framework

I. Introduction

On July 15, 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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to revise the ICC Risk Management Framework to incorporate changes to the single name credit default swap (“CDS”) liquidity charge methodology and make additional minor, clarifying changes (SR-ICC-2016-010). The proposed rule change was published for comment in the Federal Register on August 4, 2016.<sup>3</sup> On September 15, 2016, 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 November 2, 2016.<sup>4</sup> The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 34-78448 (July 29, 2016), 81 FR 51532 (Aug. 4, 2016) (SR-ICC-2016-010).

<sup>4</sup> Securities Exchange Act Release No. 34-78846 (Sept. 15, 2016), 81 FR 64574 (Sept. 20, 2016) (SR-ICC-2016-010).

## II. Description of the Proposed Rule Change

ICC proposes revising the ICC Risk Management Framework to incorporate certain risk model enhancements related to its single name CDS liquidity charge methodology. 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.

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. ICC believes the proposal 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 will incorporate a price-based bid-offer width ("BOW") floor component, which ICC asserts will provide stability of requirements, as well as a dynamic spread-based BOW component, which ICC asserts will reflect the additional risk associated with distressed market conditions. The values of such price-based BOW and spread-based BOW will be fixed factors, which will be 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. ICC's current risk factor level liquidity requirements are based on forward CDS spread levels. Under the revised calculation, liquidity charges at the risk factor level

will be 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 will be 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. ICC is not proposing any 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 and simplify ICC's liquidity charge methodology, which ICC believes should promote ease of understanding. In ICC's view, the current risk factor level liquidity requirements, based on forward CDS spread levels, are, in general, more difficult to replicate due to the need for knowledge of spread levels across the entire term structure.

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

ICC has also proposed minor clarifying edits to the ICC Risk Management Framework and the ICC Risk Management Model Description document. ICC will add

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 will add 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 will also make 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. Finally, ICC will add 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.

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act<sup>5</sup> 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 Act<sup>6</sup> requires, among other things, that the rules of a clearing agency are designed to

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<sup>5</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

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.

The Commission finds that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>7</sup> and the rules and regulations thereunder applicable to ICC. ICC asserts that the proposed change will simplify its initial margin methodology and lead to more stable initial margin requirements. The Commission believes that ICC's proposed revisions to the ICC Risk Management Framework and the ICC Risk Model Description Document, including the introduction of minimum liquidity requirements for the relevant instruments that do not decay over time and therefore are independent of instrument maturities, are reasonably designed to meet the margin and financial resource requirements of Rule 17Ad-22(b)(2-3).<sup>8</sup> In addition, the Commission believes that the revised methodology should assist market participants clearing or deciding whether to clear instruments through ICC to estimate liquidity charges for hypothetical and current positions. This enhancement in transparency is consistent with Rule 17Ad-22(d)(9),<sup>9</sup> which requires clearing agencies to establish, implement, maintain, and enforce policies and procedures reasonably designed to provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its service.

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<sup>7</sup> 15 U.S.C. 78q-1.

<sup>8</sup> 17 CFR 240.17Ad-22(b)(2-3).

<sup>9</sup> 17 CFR 240.17Ad-22(d)(9).

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<sup>10</sup> and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (File No. SR-ICC-2016-010) be, and hereby is, approved.<sup>12</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

Brent J. Fields  
Secretary

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<sup>10</sup> 15 U.S.C. 78q-1.

<sup>11</sup> 15 U.S.C. 78s(b)(2).

<sup>12</sup> 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).

<sup>13</sup> 17 CFR 200.30-3(a)(12).