

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80895; File No. SR-ICC-2017-006)

June 9, 2017

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Proposed Rule Change Relating to ICC's End-of-Day Price Discovery Policies and Procedures

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4,² notice is hereby given that on May 25, 2017, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange 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. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed rule change is to make revisions to the ICC End-of-Day Price Discovery Policies and Procedures ("Pricing Policy") related to the market variability bid-offer width ("BOW") scaling methodology, as well as additional clean-up changes.. These revisions do not require any changes to the ICC Clearing Rules ("Rules").

II. Clearing Agency'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) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

ICC proposes revising its Pricing Policy to make changes related to the market variability BOW scaling methodology. Specifically, ICC proposes the introduction of an automated assessment of market variability and, if appropriate, an automatic widening of BOWs. This automated assessment feature was initially incorporated in the Pricing Policy as a considered future enhancement; ICC now wishes to update the policy to implement the enhancement. ICC believes the enhancement will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions cleared by ICC.

(a) Summary of Proposed Changes

Each business day, ICC determines end-of-day levels through its established price discovery process, based on end-of-day submissions from its Clearing Participants. ICC uses these levels for mark-to-market and risk management purposes. As part of its price discovery process, ICC determines BOWs for each clearing-eligible instrument. The price discovery process uses the BOWs as inputs in the determination of end-of-day levels and Firm Trades. ICC has developed systems that automatically determine the BOW to use for each clearing-eligible instrument. These systems rely on BOW information from intraday market data to make this determination. To ensure ICC's systems, informed by the available intraday data, are determining appropriate BOWs, the Risk Department currently monitors the markets and has the ability to over-ride the system-determined BOWs. During periods of high market variability, there can be a

significant number of adjustments required to be manually determined and manually input into ICC's systems in a short period, introducing operational risk. ICC's proposal reduces this operational risk by replacing the manual determination and manual adjustments with well-defined algorithmic adjustments executed automatically by ICC's systems.

ICC proposes to introduce an automated widening of BOWs when there may be a potential discrepancy between the BOWs determined using the current process and BOWs that are more indicative of market conditions based on the dispersion of market mid-levels of intraday quotes.³ To determine when a potential for such discrepancy may exist, and by how much to widen the BOWs, ICC introduces a new metric, Variability Level, which it computes based on the intraday movement in mid-levels relative to the pre-defined BOWs established through its current procedures for extreme market conditions.

ICC also proposes clean-up changes to the Pricing Policy, including removing details of a planned (never implemented) addition of an intraday quote filtering algorithm and moving the description of the current process from a footnote to the main body of the document, and updating inaccurate table references throughout the policy.

Variability Level Determination

Under the proposed enhancement, ICC computes a Variability Level for the on-the-run instrument in each of the major index families that it clears. For each instrument,

³ Pursuant to discussions via email with ICC's internal counsel on June 8, 2017, staff in the Division of Trading and Markets modified the text of this sentence to clarify that the automated widening of the BOWs will occur where there is a potential discrepancy between the BOWs determined using the current process and BOWs that are more indicative of market conditions based on the dispersion of market mid-levels of intraday quotes.

ICC's systems establish a time series of intraday mid-levels from that day from available market data.⁴ For intraday mid-levels falling outside of one pre-defined BOW from the prior day's end-of-day level, the Variability Level is the maximum deviation of the time series from the prior end-of-day level divided by the pre-defined BOW. For intraday mid-levels falling within one pre-defined BOW from the prior day's end-of-day level, the Variability Level is set to 1.0 if the range of mid-levels in the time series is less than or equal to the pre-defined BOW, and set to 1.2 if the range of mid-levels in the time series is greater than the pre-defined BOW. ICC establishes Variability Bands that correspond to specific ranges of Variability Level in order to classify the magnitude of the observed variability into band 0, 1, 2, etc. Variability Band 0 is the lowest range of Variability Level, Variability Band 1 is the next higher range of Variability Level, and so on.

Market-Proxy Variability Bands

Under the proposed enhancement, to create a measure of the level of variability for North American (CDX), European (iTraxx), Emerging Market and Asia Pacific markets, ICC assigns each of the index instruments for which it determines a Variability Band to one of those markets. For example, ICC assigns CDX.NA.IG and CDX.NA.HY instruments to the North American market. ICC determines the Market-Proxy Variability Band for each market as the largest Variability Band computed for any of the index instruments assigned to that market.

⁴ Pursuant to discussions via email with ICC's internal counsel on June 8, 2017, staff in the Division of Trading and Markets modified the text of this sentence to clarify that the time series of intraday mid-levels is established from mid-levels for that particular day.

Determination of EOD BOWs for Index Instruments

ICC's current price discovery process for index instruments selects between one of three pre-defined BOWs, based on which is most representative of the BOWs observed in intraday market data. The pre-defined Regime 1 (normal), Regime 2 (volatile) and Regime 3 (extreme) BOWs are progressively wider. The proposed enhancement adjusts the regime selected by the current process depending on the computed Market-Proxy Variability Band for the market to which ICC has assigned the given instrument. The adjustment is none, one regime (moving from Regime 1 to Regime 2 or from Regime 2 to Regime 3), and two regimes (moving from Regime 1 to Regime 3 or from Regime 2 to Regime 3). Higher Market-Proxy Variability Bands result in a larger adjustment. ICC assigns index instruments to specific markets based on the region related to the reference entities of their constituent.

Determination of EOD BOWs for Single Name ("SN") Instruments

ICC's current price discovery process derives BOWs for SN instruments based on the BOWs quoted in intraday market data, and applies certain scaling factors to arrive at the EOD BOW for SN instruments. The proposed enhancement applies an additional scaling factor to the BOWs derived by the current process, depending on the computed Market-Proxy Variability Band for the market to which ICC assigns the given instrument. The scaling factors start at 1 (no adjustment) and are larger for higher Market-Proxy Variability Bands. ICC assigns SN instruments to markets based on the region related to the reference entity of the instrument.

Determination of Consensus BOWs and Correction of Inaccurate Table References

The current version of the Pricing Policy includes details of an intraday quote filtering algorithm, which was, at the time of inclusion, a planned enhancement and which has never been implemented to determine consensus BOWs. ICC proposes deleting the text describing such algorithm. The text describing ICC's current practices for determining consensus BOWs is currently set forth in a footnote within the policy. ICC proposes moving this description into the main text of the policy. ICC has also corrected inaccurate table references throughout the policy.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency be designed to protect investors and the public interest 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)⁶, [*sic*]because ICC believes that the proposed rule changes will assure the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, as the proposed revisions allow for the automatic adjustment of BOWs to appropriate levels during periods of high market variability, thus assisting ICC in ensuring it maintains market appropriate BOWs in all market conditions. Appropriate BOWs ensure ICC maintains an accurate and effective EOD price discovery process, which includes the determination of EOD pricing levels and Firm Trade

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ Id.

determinations. As such, the proposed changes are designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the meaning of Section 17A(b)(3)(F)⁷ of the Act.

(B) Clearing Agency'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 proposed changes to ICC's market variability BOW scaling methodology will 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) Clearing Agency's Statement on Comments on the Proposed Rule Change 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 such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

⁷ Id.

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-2017-006 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090.

All submissions should refer to File Number SR-ICC-2017-006. 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, N.E., Washington, D.C. 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-2017-006 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.⁸

Robert W. Errett
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).