SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81797; File No. SR-ICC-2017-012)

October 2, 2017

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to ICC's Liquidity Risk Management Framework and ICC's Stress Testing Framework

I. Introduction

On August 22, 2017, 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-2017-012) to amend the ICC Liquidity Risk Management Framework and the ICC Stress Testing Framework. The proposed rule change was published for comment in the Federal Register on August 31, 2017.[3] The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

In connection with clearing Single Name ("SN") credit default swaps ("CDS") referencing ICC Clearing Participants ("CPs"), ICC has proposed changes to its Stress Testing Framework and Liquidity Risk Management Framework, which ICC believes will enhance its stress testing and liquidity stress testing practices. The proposed rule change would expand the stress test scenarios that ICC considers to be extreme but plausible by incorporating additional losses related to the expected loss given default of all names not explicitly assumed to enter a

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 81486 (August 25, 2017), 82 FR 41454 (August 31, 2017) (SR-ICC-2017-012) ("Notice").

state of default in a CP's portfolio.[4] The proposed change would similarly amend the stress scenarios described in ICC's Liquidity Risk Management Framework, which ICC stated is necessary to ensure consistency across its documents.[5] The proposed change would also incorporate an enhanced analysis of profits and losses ("P/L") arising out of General Wrong-Way Risk ("GWWR") generated by SNs in the Banking and Sovereign sectors.[6] Further, the proposed change would clarify ICC's current view that certain GWWR and contagion stress scenarios are extreme, but not plausible, and that such scenarios would be reviewed for informational purposes only.[7]

The proposed change would enhance ICC's guaranty fund sizing process by adding a new sensitivity analysis. This new analysis would contemplate the default of three CP SNs and two non-CP SNs. This analysis would be in addition to the current sizing approach, which contemplates the default of two CP SNs and three non-CP SNs. While not immediately requiring the collection of additional resources, ICC stated that the proposed change could provide a potential remedy where deficiencies are identified in ICC's current sizing methodology.[8]

ICC also proposes to add an interest rate sensitivity analysis in order to comply with CFTC Regulation 17 CFR 39.36. The proposed interest rate sensitivity analysis would shock the Euro and USD interest rate curves up and down to see which scenario would lead to further

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4 Notice, 82 FR at 41455.

5 Notice, 82 FR at 41455-56.

6 Notice, 82 FR at 41455.

7 Id.

8 Id.

erosion of ICC's guaranty fund. ICC stated that this analysis would have no impact on its guaranty fund sizing methodology.[9]

The proposed change also includes amendments to ICC's approach to Specific Wrong-Way Risk ("SWWR") P/L to expand the SWWR P/L to incorporate losses arising in connection with defaulting CP specific exposures, and also adds a description of ICC's current client stress testing practices. ICC stated that these changes were proposed for consistency with specific CFTC regulations.[10]

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[11] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

Section 17A(b)(3)(F)[12] of the Act requires, inter alia, that the rules of a clearing agency be designed 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. Rule 17Ad-22(b)(3)[13] requires, inter alia, that a registered clearing agency acting as a central counterparty for security-based swaps shall establish, implement, maintain, and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the two

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9 Id.

10 Id.

11 15 U.S.C. 78s(b)(2)(C).

12 15 U.S.C. 78q-1(b)(3)(F).

13 17 CFR 240.17Ad-22(b)(3).

participant families to which it has the largest exposures in extreme but plausible market conditions, in its capacity as a central counterparty for security-based swaps.

The Commission finds that the proposed rule change, which enhances ICC's Stress Testing Framework and Liquidity Risk Management Framework, is consistent with Section 17A[14] of the Act and Rule 17Ad-22[15] thereunder. As noted above, in response to the clearing of SN CDS referencing CPs, the proposed change would expand the range of stress tests that ICC considers to be extreme but plausible. The Commission has reviewed the Notice and ICC's rules, policies, and procedures, and believes that the expanded range of extreme but plausible scenarios, supplemented by the information that will be provided by certain additional GWWR and contagion stress scenarios considered to be extreme but implausible, enhance ICC's processes for estimating the amount of financial resources ICC should collect.

Additionally, while adoption of the sensitivity analyses described above will not immediately require ICC to collect additional financial resources, it will provide ICC with additional risk management information. Further, ICC stated that at least in some cases, one of the newly added analyses could provide a potential remedy where deficiencies are identified in ICC's current sizing methodology.[16] Consequently, the Commission believes that the proposed rule change is reasonably designed to ensure that ICC maintains sufficient financial resources in accordance with the requirements of Rule 17Ad-22(b)(3) and will thereby enhance ICC's ability to safeguard the securities and funds of CPs in the event of participant defaults. As a result, the

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14 15 U.S.C. 78q-1.

15 17 CFR 240.17Ad-22.

16 Notice, 82 FR at 41455.

Commission finds that the proposed change is consistent with the requirements of Section 17A of the Act and the relevant provisions of Rule 17Ad-22.

IV. Conclusion

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act that the proposed rule change (SR-ICC-2017-012) be, and hereby is, approved.[17]

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[18]

Eduardo A. Aleman
Assistant Secretary

[17] 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).

[18] 17 CFR 200.30-3(a)(12).