

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91517; File No. SR-ICC-2021-009)

April 8, 2021

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Proposed Rule Change Relating to the ICC Risk Parameter Setting and Review Policy

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the Act)¹ and Rule 19b-4 thereunder,², notice is hereby given that on April 2, 2021, 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 changes to ICC’s Risk Parameter Setting and Review Policy. These revisions do not require any changes to the ICC Clearing Rules (the “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, security-based swap submission, or advance notice and discussed any comments it received on the proposed rule change, security-based swap submission, or advance notice. The text of these statements may be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

examined at 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

(a) Purpose

ICC proposes revising its Risk Parameter Setting and Review Policy, which describes the process of setting and reviewing the risk management model core parameters and the performance of sensitivity analyses related to certain parameter settings. ICC believes that such revisions will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions for which it is responsible. ICC proposes to make such changes effective following Commission approval of the proposed rule change. The proposed revisions are described in detail as follows.

ICC proposes to amend the "Univariate Level Parameters" subsection (Subsection 1.7.1). ICC proposes changes related to the univariate level parameters associated with the integrated spread response model component. Namely, ICC proposes to transition the risk management mean absolute deviation ("MAD") monthly parameter update for index risk factors to an automatic daily update in the risk management system. The proposed changes would also specify that single name risk factor level risk management MADs are not subject to automatic updates and that the ICC Risk Department estimates and reviews the univariate single name integrated spread response parameters and their assumptions at least on a monthly basis.

ICC proposes minor clarifications to the "Implied Distribution Parameters for Index Option Instruments" subsection (Subsection 1.7.4). ICC previously replaced

naming conventions for stress scenarios associated with the Lehman Brothers (“LB”) default with more generic naming conventions associated with extreme price changes, namely extreme price decreases and increases (the “Extreme Price Change Scenarios”).³ Relatedly, ICC proposes minor updates to replace references and notations to the scenarios associated with the LB default with the Extreme Price Change Scenarios. ICC also proposes to more clearly refer to “stress MAD factors” as “stress implied MAD factors.”

ICC proposes amendments to the “Routinely Updated Parameters” subsection (Subsection 2.4). As described above, ICC proposes changes specifying that the index risk factor level risk management MADs are automatically updated daily in the risk management system and the other risk factor parameters are reviewed at least monthly.

(b) Statutory Basis

ICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁴ and the regulations thereunder applicable to it, including the applicable standards under Rule 17Ad-22.⁵ In particular, Section 17A(b)(3)(F) of the Act⁶ requires that the rule change be consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC, the safeguarding of securities and funds in the custody or control of ICC

³ See SR-ICC-2020-009 for more information on the incorporation of the Extreme Price Change Scenarios into ICC’s risk management policies and procedures, including the Risk Parameter Setting and Review Policy.

⁴ 15 U.S.C. 78q-1.

⁵ 17 CFR 240.17Ad-22.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

or for which it is responsible, and the protection of investors and the public interest. The proposed amendments transition the risk management MAD monthly parameter update for index risk factors to an automatic daily update. Such changes would timely capture any significant MAD changes and minimize the cumulative effect of MAD changes between parameter updates, and thus reduce the level of initial margin procyclicality. The proposed clarifications would further ensure readability and clarity with respect to ICC's process of setting and reviewing the model core parameters to ensure that the documentation remains up-to-date, clear, and transparent to support the effectiveness of ICC's risk management system. The proposed rule change is therefore consistent with the prompt and accurate clearing and settlement of the contracts cleared by ICC, the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible, and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.⁷

Rule 17Ad-22(e)(2)(i) and (v)⁸ requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility. ICC's Risk Parameter Setting and Review Policy clearly assigns and documents responsibility and accountability for the estimation and review of the model core parameters and the performance of sensitivity analyses. Regarding the univariate level parameters, the proposed changes continue to ensure that ICC maintains

⁷ Id.

⁸ 17 CFR 240.17Ad-22(e)(2)(i) and (v).

clear and transparent governance procedures and arrangements, including by describing the frequency of the parameter reviews and updates, the group involved in the review process, and prerequisites to implementing parameter updates. As such, in ICC's view, the proposed rule change continues to ensure that ICC maintains policies and procedures that are reasonably designed to provide for clear and transparent governance arrangements and specify clear and direct lines of responsibility, consistent with Rule 17Ad-22(e)(2)(i) and (v).⁹

Rule 17Ad-22(e)(4)(ii)¹⁰ requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. The proposed changes promote the soundness of the model including by transitioning the risk management MAD monthly parameter update for index risk factors to an automatic daily update. Such changes would timely capture any significant MAD changes and minimize the cumulative effect of MAD changes between parameter updates, and thus reduce the level of initial margin procyclicality. ICC believes that the proposed rule change would

⁹ Id.

¹⁰ 17 CFR 240.17Ad-22(e)(4)(ii).

thus enhance ICC's ability to manage risks and maintain appropriate financial resources. ICC proposes additional clarifications, including updating references to the Extreme Price Change Scenarios and specifying the frequency of the subject parameter reviews and updates. ICC believes that such changes enhance the readability and transparency of the Risk Parameter Setting and Review Policy, which would strengthen the documentation and ensure that it remains up-to-date, clear, and transparent. As such, the proposed amendments would strengthen ICC's ability to maintain its financial resources and withstand the pressures of defaults, consistent with the requirements of Rule 17Ad-22(e)(4)(ii).¹¹

Rule 17Ad-22(e)(4)(vi)(B)¹² requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements, including by conducting a comprehensive analysis on at least a monthly basis of underlying parameters and assumptions. Under the proposed changes, the Risk Parameter Setting and Review Policy continues to provide a clear framework for ICC to set and review the model core parameters and perform sensitivity analyses related to certain parameter settings on at least a monthly basis. The proposed changes transition the risk management MAD monthly parameter update for index risk

¹¹ Id.

¹² 17 CFR 240.17Ad-22(e)(4)(vi)(B).

factors to a more frequent and automatic daily update. As such, ICC believes the proposed rule change is consistent with the requirements of Rule 17Ad-22(e)(4)(vi)(B).¹³

Rule 17Ad-22(e)(6)(i)¹⁴ requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. As described above, the index risk factor level risk management MADs would be automatically updated daily in the risk management system, which would timely capture any significant MAD changes and minimize the cumulative effect of MAD changes between parameter updates, and thus reduce the level of initial margin procyclicality. The additional clarifications would further promote clarity and transparency in the documentation. In ICC's view, the proposed changes thus enhance and strengthen ICC's process for reviewing and setting the model core parameters, which in turn serves to promote the soundness of ICC's risk management model and system, which will continue to consider and produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market, consistent with the requirements of Rule 17Ad-22(e)(6)(i).¹⁵

(B) Clearing Agency's Statement on Burden on Competition

¹³ Id.

¹⁴ 17 CFR 240.17Ad-22(e)(6)(i).

¹⁵ Id.

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition. The proposed changes to ICC's Risk Parameter Setting and Review Policy will apply uniformly across all market participants. Therefore, ICC does not believe the proposed rule change imposes 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 Received 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.

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-2021-009 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.

All submissions should refer to File Number SR-ICC-2021-009. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information

from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2021-009 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.¹⁶

J. Matthew DeLesDernier
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).