

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-91918; File No. SR-ICC-2021-008)

May 18, 2021

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

I. Introduction

On March 31, 2021, 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 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend the ICC Risk Management Model Description (the “Model Description”). The proposed rule change was published for comment in the Federal Register on April 13, 2021.<sup>3</sup> The Commission did not receive comments regarding 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 amend the Model Description. The changes would (i) memorialize the review and approval process of the Model Description; (ii) enhance the liquidity charge methodology; and (iii) make other minor clarifications.<sup>4</sup>

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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> Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the ICC Risk Management Model Description, Exchange Act Release No. 91493 (April 7, 2021), 86 Fed. Reg. 19316 (April 13, 2021) (“Notice”).

<sup>4</sup> This description is substantially excerpted from the Notice, 86 Fed. Reg. at 19316. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Model Description.

A. Review and Approval Process

First, the proposed rule change would amend the “Initial Margin Methodology” section of the Model Description to memorialize the review and approval process for the Model Description. As would be stated in the amended Model Description, this process would consist of review by the ICC Risk Committee and review and approval by the ICC Board of Managers at least annually.

B. Enhanced Liquidity Charge Methodology

Second, the proposed rule change would make an enhancement related to the index liquidity charge (“LC”) methodology. Specifically, the proposed rule change would revise the “Liquidity Charge for Index Risk Factors” subsection (Subsection II.2) to amend a formula for the index series LC. Currently, to arrive at the index series LC, ICC takes into account the estimated LCs for the instruments that belong to the same index series and the sign of the notional amount of the instrument. Under the proposed rule change, ICC would establish the index series LC as the more conservative liquidity requirement associated with the sum of the bought and sold protection position LCs for the instruments that belong to the same index series. ICC represents that this change would unify the index LC with the single name and credit default index swaption (“Index Option”) LC methodologies.<sup>5</sup>

C. Additional Clarifications

Finally, the proposed rule change would make additional clarifications in the Model Description. In the “Liquidity Charge for Index Options” subsection (Subsection II.2.1), the

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<sup>5</sup> Notice, 86 Fed. Reg. at 19317.

proposed rule change would specify that with respect to long Index Option instruments, the LC combined with the integrated spread response requirement will not exceed the end-of-day option instrument price. ICC represents that this amendment would reflect the maximum loss condition, given that the maximum loss would be the end-of-day option instrument price.<sup>6</sup>

In the “Anti-Procyclicality Measures” subsection (Subsection VII.5.3), the proposed rule change would make clarifications regarding the scenarios associated with extreme price decreases and extreme price increases. Specifically, the proposed rule change would clarify that the extreme price decrease and increase scenarios for Index Options incorporate hypothetical forward price decreases and increases, respectively.

Finally, in respect of the maximum loss condition, the proposed rule change would update formulas related to the final portfolio initial margin in the “Portfolio Loss Boundary Condition” section (Section IX) to reference the portfolio level integrated spread response.

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act 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.<sup>7</sup> After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC. In particular, the Commission finds that the proposed rule change is consistent with Section

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<sup>6</sup> Notice, 86 Fed. Reg. at 19317.

<sup>7</sup> 15 U.S.C. 78s(b)(2)(C).

17A(b)(3)(F) of the Act,<sup>8</sup> Rules 17Ad-22(e)(2)(i) and (v),<sup>9</sup> Rule 17Ad-22(e)(4)(ii),<sup>10</sup> and Rule 17Ad-22(e)(6)(i) thereunder.<sup>11</sup>

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of ICC be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, as well as to assure the safeguarding of securities and funds which are in the custody or control of ICC or for which it is responsible.<sup>12</sup>

As discussed above, the proposed rule change would make various improvements to the Model Description. Specifically, the Commission believes memorializing the annual review and approval process for the Model Description should help to ensure that the Model Description is maintained and improved, as needed, following the annual review. Moreover, unifying the index LC with the single name and Index Option LC methodologies, by establishing the index series LC as the more conservative liquidity requirement, should help to simplify the methodology and ensure a consistent application of the LC among all of the products that ICC clears. Specifying that, with respect to long Index Option instruments, the LC combined with the integrated spread

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<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> 17 CFR 240.17Ad-22(e)(2)(i) and (v).

<sup>10</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

response requirement will not exceed the end-of-day option instrument price, to reflect the maximum loss condition, should clarify the limit of this requirement given that the maximum loss would be the end-of-day option instrument price. Similarly, specifying that the extreme price decrease and increase scenarios for Index Options incorporate hypothetical forward price decreases and increases and updating formulas related to the final portfolio initial margin to reference the portfolio level integrated spread response, should clarify the applications of these requirements, helping to ensure the consistent application of ICC's risk methodology.

Because ICC uses the Model Description to derive initial margin and guaranty fund requirements for its Clearing Participants, the Commission believes the proposed rule change, by improving the Model Description, should improve ICC's ability to derive such requirements. The Commission further believes the proposed rule change should improve ICC's ability to manage the risks associated with clearing transactions through application of its initial margin and guaranty fund requirements, as set forth in the Model Description. Moreover, the Commission believes the risks associated with clearing transactions, if not properly managed through the collection of initial margin and guaranty fund, could cause ICC to suffer losses which could inhibit its ability to clear and settle transactions and assure the safeguarding of securities and funds. Accordingly, the Commission believes that by improving the Model Description and, therefore, ICC's ability to manage the risks associated with clearing transactions, the proposed rule change should promote the prompt and accurate clearance and settlement of securities

transactions and assure the safeguarding of securities and funds in ICC's custody and control or for which it is responsible, consistent with the Section 17A(b)(3)(F) of the Act.<sup>13</sup>

B. Consistency with Rules 17Ad-22(e)(2)(i) and (v)

Rule 17Ad-22(e)(2)(i) requires that ICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent.<sup>14</sup> Rule 17Ad-22(e)(2)(v) requires that ICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for governance arrangements that specify clear and direct lines of responsibility.<sup>15</sup> As discussed above, the proposed rule change would memorialize the process for approval of the Model Description (i.e., review by the ICC Risk Committee and review and approval by the ICC Board at least annually). The Commission believes that this change should establish a governance arrangement for review and approval of the Model Description that is clear and transparent and that imposes a direct line of responsibility on the ICC Risk Committee and ICC Board.

For this reason, the Commission finds that the proposed rule change is consistent with Rules 17Ad-22(e)(2)(i) and (v).<sup>16</sup>

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<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>14</sup> 17 CFR 240.17Ad-22(e)(2)(i).

<sup>15</sup> 17 CFR 240.17Ad-22(e)(2)(v).

<sup>16</sup> 17 CFR 240.17Ad-22(e)(2)(i) and (v).

C. Consistency with Rule 17Ad-22(e)(4)(ii)

Rule 17Ad-22(e)(4)(ii) requires that ICC 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 ICC in extreme but plausible market conditions (“Cover 2 Requirement”).<sup>17</sup> As discussed above, the Commission believes the proposed rule change should improve the Model Description by: (i) memorializing the annual review and approval process, thereby helping to ensure that the Model Description is maintained and improved; (ii) simplifying the methodology and ensuring a consistent application of the LC among all of the products that ICC clears; and (iii) clarifying the integrated spread response requirement, the extreme price decrease and increase scenarios, and the final portfolio initial margin, helping to ensure the transparent and consistent application of ICC’s risk methodology. ICC uses the Model Description to derive its guaranty fund requirements and thereby maintain financial resources to meet its Cover 2 Requirement. The Commission therefore believes the proposed rule change, in improving the Model Description, should improve ICC’s ability to satisfy its Cover 2 Requirement.

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<sup>17</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

For these reasons, the Commission finds that the proposed rule change is consistent with Rules 17Ad-22(e)(4)(ii).<sup>18</sup>

D. Consistency with Rule 17Ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) requires that ICC 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.<sup>19</sup> As discussed above, the Commission believes the proposed rule change should improve the Model Description by: (i) memorializing the annual review and approval process, thereby helping to ensure that the Model Description is maintained and improved; (ii) simplifying the methodology and ensuring a consistent application of the LC among all of the products that ICC clears; and (iii) clarifying the integrated spread response requirement, the extreme price decrease and increase scenarios, and the final portfolio initial margin, helping to ensure the transparent and consistent application of ICC's risk methodology. ICC uses the Model Description to derive its margin requirements appropriately tailored to the risks presented by the products that ICC clears. The Commission therefore believes the proposed rule change, in improving the Model Description, should improve ICC's ability to consider, and produce margin levels commensurate with, the risks and particular attributes of each relevant

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<sup>18</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

<sup>19</sup> 17 CFR 240.17Ad-22(e)(6)(i).



product, portfolio, and market. For these reasons, the Commission finds that the proposed rule change is consistent with Rule 17Ad-22(e)(6)(i).<sup>20</sup>

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act,<sup>21</sup> Rules 17Ad-22(e)(2)(i) and (v) under the Act,<sup>22</sup> Rule 17Ad-22(e)(4)(ii) under the Act,<sup>23</sup> and Rule 17Ad-22(e)(6)(i) under the Act.<sup>24</sup>

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act<sup>25</sup> that the proposed rule change (SR-ICC-2021-008) be, and hereby is, approved.<sup>26</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>20</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>21</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>22</sup> 17 CFR 240.17Ad-22(e)(2)(i) and (v).

<sup>23</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

<sup>24</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>25</sup> 15 U.S.C. 78s(b)(2).

<sup>26</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>27</sup> 17 CFR 200.30-3(a)(12).