

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-98140; File No. SR-ICC-2023-012)

August 15, 2023

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the Stress Testing Framework

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 August 8, 2023, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (the “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 revise the ICC Stress Testing Framework (“STF”). 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, 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 to update the STF. The STF sets forth the ICC stress testing practices that are focused on ensuring the adequacy of systemic risk protections. The proposed changes are limited to updating the stress period of the default-free Euro discount interest rate curve used in ICC's interest rate sensitivity analysis and providing additional clarifying language to the STF. ICC believes the proposed changes 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 move forward with implementation of these changes following Commission approval of the proposed rule change. The proposed changes are described in detail as follows.

ICC proposes to update STF Section 11, "Interest Rate Sensitivity Analysis", which describes ICC's interest rate sensitivity analysis to account for the risks associated with changes to default-free discount interest rates. The STF currently incorporates two, currency specific, stress test parallel shifts (i.e., up, and down) of the default-free discount interest rate for both CDS and CDS Index Options instruments. The magnitude of the interest rate stress scenarios reflects the largest shock, estimated using the collateral haircut model, during a selected stress period for the applicable sovereign debt, and such selected stress periods are subject to periodic review. Following such review,

ICC proposes to update the stress period used to shock the EURO default-free discount interest rate.

The reasoning behind such proposed change is to respond to the current volatile interest rate period which began in 2022 and continues into 2023 due to the fast pace of U.S. Dollar and Euro interest rate increases. The impact to Euro interest rate volatility has been significant due to the sudden and rapid increases in Euro interest rates by the European Central Bank in an effort to curb multi-decade high inflation. Such interest rate volatility observed during this currently ongoing “2022/2023 inflation crisis period” is greater than the interest rate volatility observed in the Euro stress period currently in place in the STF (i.e., the “western European credit crisis period” which occurred in 2011-2012). Specifically, the magnitude of the collateral haircuts observed in the currently ongoing “2022/2023 inflation crisis period” exceed the collateral haircuts observed during the “western European credit crisis period.”

Therefore, ICC proposes to replace the current “western European credit crisis period” stress period with the “2022/2023 inflation crisis period” stress period in Section 11 of the STF. Such proposed change is prudent, from a risk perspective, as it improves ICC’s interest rate sensitivity analysis by referencing the higher interest rate volatility stress period. As the current inflation crisis remains ongoing, ICC will continue to monitor interest rate volatility for any new volatility peak observed in the current “2022/2023 inflation crisis period.”. In addition, ICC proposes to make analogous clarifying language changes to the identification of the default-free USD discount interest rate curve in Section 11 of the STF to remove the specific dates of the applicable stress period (i.e., the 2008/2009 credit crisis period).

(b) Statutory Basis

As discussed herein, the proposed changes update the default-free Euro discount interest rate curve used in ICC's interest rate sensitivity analysis to reflect the interest rate shocks observed during the recent 2022-2023 inflation crisis period. Such proposed change strengthens the STF by updating the Euro stress period. Accordingly, ICC believes that the proposed changes to the STF are consistent with the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, 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 17(A)(b)(3)(F) of the Act.³

In addition, the proposed changes to the STF are consistent with the relevant requirements of Rule 17Ad-22.⁴ Rule 17Ad-22(b)(3)⁵ requires ICC to 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 CP families to which it has the largest exposures in extreme but plausible market conditions. The proposed changes to the STF provide further clarity and transparency regarding ICC's stress testing practices, including updating the stress periods used in ICC's interest rate sensitivity analysis. The proposed revisions also support ICC's ability to maintain sufficient risk requirements and enhance ICC's approach to identifying potential weaknesses in the risk management system by updating time periods to existing

³ 17 CFR 240.17(A)(b)(3)(F).

⁴ 17 CFR 240.17Ad-22.

⁵ 17 CFR 240.17Ad-22(b)(3).

stress testing hypotheticals, thereby ensuring that ICC maintains sufficient financial resources to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions, consistent with the requirements of Rule 17Ad-22(b)(3).⁶

The amendments would also satisfy relevant requirements of Rule 17Ad-22.⁷ Rule 17Ad-22(e)(4)(ii)⁸ requires ICC 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 ICC in extreme but plausible market conditions. The proposed amendments enhance ICC's ability to manage its financial resources by updating a stress period used in ICC's interest rate sensitivity analysis. The proposed amendments add descriptive detail to be clearer, which would ensure transparency and strengthen the documentation, thereby supporting the effectiveness of ICC's risk management system. The proposed clarifying language further enhances the readability of the STF and ensures that it remains up-to-date, clear, and transparent. As such, the proposed amendments would strengthen ICC's ability to

⁶ Id.

⁷ 17 CFR 240.17Ad-22.

⁸ 17 CFR 240.17Ad-22(e)(4)(ii).

maintain its financial resources and withstand the pressures of defaults, consistent with the requirements of Rule 17Ad-22(e)(4)(ii).⁹

Rule 17Ad-22(e)(4)(vi)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 testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements, including by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions; conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions; and reporting the results of its analyses to appropriate decision makers at ICC. The proposed rule change continues to ensure that ICC's policies and procedures, including the STF, provide a clear framework for ICC to conduct stress testing and analysis and report the results to appropriate decision makers at ICC, in compliance with this requirement. As such, ICC believes the proposed rule change is consistent with the requirements of Rule 17Ad-22(e)(4)(vi).¹¹

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

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition. The proposed changes to the STF update the stress period

⁹ Id.

¹⁰ 17 CFR 240.17Ad-22(e)(4)(vi).

¹¹ 17 CFR 240.17Ad-22(e)(4)(vi).

used in ICC's interest rate sensitivity analysis and make other clarifying changes, which ICC believes are appropriate in furtherance of the risk management of the clearing house. The changes to the STF will apply uniformly across all market participants. ICC does not believe these changes would affect the costs of clearing or the ability of market participants to access clearing. Therefore, ICC does not believe the proposed rule change would 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 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ICC-2023-012 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.

All submissions should refer to File Number SR-ICC-2023-012. This file number should be included on the subject line if email 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, NE, Washington, DC 20549, on official business days between the hours of 10 am and 3 pm. Copies of such filings also will 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>.

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-ICC-2023-012 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Sherry R. Haywood,
Assistant Secretary.

¹² 17 CFR 200.30-3(a)(12).