

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76733; File No. SR-ICC-2015-017]

### Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change To Revise the ICC Risk Management Framework and ICC Treasury Operations Policies and Procedures, and Adopt the ICC Risk Management Model Description Document

December 22, 2015.

#### I. Introduction

On October 20, 2015, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19b(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change (SR-ICC-2015-017) to reorganize the ICC Risk Management Framework (“RMF”) in response to a recommendation from the Commodity Futures Trading Commission (“CFTC”) regarding improvements related to the governance of ICC’s risk management documentation. The proposed rule change was published for comment in the **Federal Register** on November 9, 2015.<sup>3</sup> The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

#### II. Description of the Proposed Rule Change

ICC has proposed reorganizing the RMF in response to a recommendation from the CFTC regarding improvements to the governance of ICC’s risk management documentation. Specifically, ICC has proposed organizational and clarifying edits to the RMF and the Treasury Operations Policies and Procedures, and has proposed adopting a new Risk Management Model Description Document. ICC has represented that these revisions do not require any changes to the ICC Clearing Rules (“Rules”).

ICC will move the Collateral Assets Risk Management Framework appendix from the RMF to the Treasury Operations Policies and Procedures. Accordingly, ICC will update references throughout the RMF to the Collateral Assets Risk Management Framework

appendix to refer instead to the Treasury Operations Policies and Procedures. ICC will move appendices containing technical risk management information (formerly, RMF Appendices 3–5) to the new ICC Risk Management Model Description Document.

Accordingly, ICC will update references throughout the RMF to these appendices to refer to the Risk Management Model Description Document.

ICC will also make general updates and edits throughout the RMF for clarity and consistency. Such edits will include correcting verb tenses, adopting consistent abbreviations, and adjusting sentence order to assure logical presentation and word flow, and using more succinct language. ICC has represented that the edits are not substantive and do not affect the nature of ICC’s risk management program.

Within the Overview section of the RMF, ICC will refine the Business Overview details to more accurately describe the business operations of Intercontinental Exchange, Inc. and ICC.

ICC will edit the Governance and Organization section of the RMF to more fully describe which topics the Risk Committee is responsible to advise the Board. The list of documents reviewed by the Risk Committee on at least an annual basis will be revised to include the ICC Risk Management Model Description Document, the ICC Treasury Operations Policies and Procedures, and the ICC Liquidity Risk Management Framework. The Risk Working Group (“RWG”) description will be updated to note that the group consists of risk personnel from ICC Clearing Participants (“CPs”), and to clarify that the RWG is responsible for reviewing ICC’s risk philosophy and recommending changes to ICC’s RMF. The validation function of the risk philosophy and tolerance will be removed from the list of RWG responsibilities as, according to ICC, such functions are the ultimate responsibility of the Board. The Advisory Committee description will be updated to note that the committee is comprised of representatives of up to twelve clients/customers of ICC CPs (ICC has represented that currently there are twelve client/customer members). The CDS Default Committee description will be updated to note that the committee is comprised of representatives from ICC CPs on a rotating basis and to remove reference to a duty to provide feedback on ICC’s RMF and parameters because the CDS Default Committee is only convened upon the declaration of a default. The committee description will be enhanced to note that, as the CDS Default

Committee assists ICC in determining and managing Minimum Target Prices for auctioned portfolios related to a default, the committee oversees necessary auction(s) as well as the process to re-establish a matched book. The Risk Management Organization section will be updated to remove outdated language stating that the Risk Management Department conducts an annual review of ICC’s Risk Management Framework Policy Statement and submits proposed changes to the RWG, Risk Committee, and Board. Further, the section will be updated to remove reference to the Risk Management Department being responsible for ICC’s intellectual capital and personnel, while creating, implementing and maintaining ICC’s risk management policies.

ICC will make edits to the Product Summary section of the RMF. ICC will clarify language to refer to Index CDS Instruments (as opposed to Index Products), Single Name CDS Instruments (as opposed to Single Name CDS), and reference entities (as opposed to companies). The Index CDS instruments section will be revised to remove reference to the International Index Company. The Single Name CDS Instruments section will be modified to refine language concerning what constitutes a credit event. The list of attributes defining a CDS contract will be enhanced to include Maturity, as well as reference Notional Amount, as opposed to Notional Principal. Reference to the terms of the contracts being prescribed by the ICC Rules and Participant Agreement will be removed. The Risk Factors, Risk Sub-Factors and Instruments section will be revised to enhance the definition of Risk Sub-Factor to refer to a specific single name reference obligation seniority and doc clause combination.

ICC will make edits to the Systemic Risk Management Approach section of the RMF, which includes Waterfall Levels 1 through 5. ICC will revise Waterfall Level 1: Membership Criteria to remove reference, within the Operational Criteria, to employee participation on industry committees (e.g. ISDA, DTCC, etc.). Furthermore, the ongoing monitoring of participants section will be enhanced to state: (i) intraday monitoring includes intraday CDS market levels and potential equity price movements, as well as news from Bloomberg and other information sources; and (ii) daily monitoring and analysis includes prior day’s final pays by CPs, daily change in Initial Margin (“IM”), margin deficits, unrealized intraday profits/losses for cleared portfolios, risk impact of new intraday

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 34-76331 (Nov. 3, 2015), 80 FR 69261 (Nov. 9, 2015) (SR-ICC-2015-017).

trades on cleared portfolios, daily end-of-day ("EOD") levels, CPs' Guaranty Fund ("GF") obligations, CPs' day-over-day change in GF requirements relative to each firm's prior day levels, and CPs' day-over-day change in GF requirements relative to the total GF balance. ICC will remove from the ongoing monitoring of participants section review the following components: Daily prices and spreads (including missed EOD submissions), daily EOD prices (including missed prices), prior day's and intraday total IM as a percentage of CP's or CP's guarantor's capital, collateral pricing report for missing prices, and collateral deposits no longer in compliance with ICC's acceptable collateral policy. ICC asserts that such elements are included in the enhanced daily monitoring and analysis section or have been deemed no longer relevant to the monitoring process. Further, ICC will clarify that the Risk Management Department reviews weekly stress test results for extreme risk event scenarios to ensure sufficient margin cover under market conditions, as opposed to drastic market conditions. The Participant Withdrawal subsection will be revised to remove reference to ICC's right of One Time Assessment and instead refer more generally to ICC's power of assessment.

ICC will revise the Waterfall Level 2: Initial Margin description to clarify that ICC's IM requirements consist of a set of individual components that account for various risks and that the methodology includes consideration of hypothetical scenarios for those components. ICC will add language to the Spread Response Requirements section to note that the hypothetical prices used in calculating the instrument spread response risk IM requirement reflect the time-to-maturity horizon reduced by one day. ICC will revise the distributions and related parameters subsection to refer to the more specific feature Mean Absolute Deviation ("MAD") as opposed to the more general term "scale." ICC will remove reference to a set Exponentially Weighted Moving Average decay factor, as ICC asserts the factor is dynamic, subject to review and changed by the Risk Department in consultation with the Risk Committee. ICC will also remove outdated language regarding the initial setting of Auto Regressive process for first order parameters.

ICC will revise the description of the considered scenarios to provide a mathematical description of how the considered scenarios are constructed based on statistical analysis of historical time series. The term structure scenario construction will now be clearly defined in terms of 99% Value-at-Risk

equivalent risk measures for different tenors, and the cross-tenor correlation structure will be estimated from time series analysis. ICC will revise the term "contracting" to "tightening" in the context of spread behavior to, according to ICC, provide conformity to more commonly used credit market terminology.

Within the Recovery Rate ("RR") Sensitivity Requirements subsection, ICC will clarify that two additional single name-specific stress-test RRs are considered in determining the requirements.

ICC will revise Waterfall Level 3: Mark-to-Market Margin description. Specifically, ICC will revise the methodology section to remove specific calculations regarding the methodology and instead refer to the ICC EOD Price Discovery Policies and Procedures, which ICC asserts contain a more fulsome methodology description.

ICC will revise Waterfall Level 4: Intra-day Risk Monitoring/Special Margin Call Execution to clarify language describing the calculation of prices to determine the adequacy of collected IM intraday. Specifically, as part of the calculation, ICC will utilize bid-offer quotes which will be automatically fed into the ICC risk management intraday monitoring system.

ICC will revise Waterfall Level 5: Guaranty Fund description. The ICC GF is designed to provide adequate funds to cover losses associated with the default of the two CPs, as well as any affiliated CPs (*i.e.* any other CP that owns, is owned by, or is under common ownership with such a CP) with the greatest potential uncollateralized losses. ICC will add language to note that the set of all affiliated CPs is considered as a CP affiliate group. Within the Waterfall Level 5 description, ICC will revise language to reinforce this CP affiliate group concept. Within the Guaranty Fund Calculation for Clearing Participants subsection, ICC will remove reference to summary concepts of uncollateralized loss given default, uncollateralized spread response losses, uncollateralized basis risk losses, and uncollateralized interest rate losses, previously used in describing the computations of the stress scenario losses. ICC will more precisely define the factors considered within the GF calculation and related stress test scenarios as the following: occurrence of multiple credit events, uncollateralized loss-given-default from self-referencing positions, adverse spread scenarios, adverse index-single-name basis widening, adverse interest rate scenarios, and anti procyclicality.

ICC will add language to the Guaranty Fund Allocation subsection of the RMF to state that the CP's total uncollateralized GF stress loss is the difference between the sum of the stress loss given default, GF stress spread response, GF stress basis risk and interest rate losses and the sum of the IM idiosyncratic jump-to-default requirements, IM spread response requirement, IM basis and interest risk requirement.

ICC will revise the General Wrong Way Risk and Contagion Measures subsection to remove technical information that was moved to the Risk Management Model Description Document.

ICC will revise the Position Concentration Limits subsection of the Risk Limits and Controls section to clarify that ICC's concentration charge is designed to increase a CP's IM requirement toward the risk of maximum loss and ultimately, at the extreme, toward the full expected notional amount of liability of the sold protection or the present value of the amount of coupon payments for bought protection. ICC will summarize language referring to the notional liability of the protection sold or the full value of coupon payments to refer more generally to loss associated with the portfolio. ICC will revise the Model Time Horizon subsection to note that the standard risk horizon can be increased by the ICC Risk Management Department during banking holiday periods to reflect ICC's limited ability to execute margin calls without Risk Committee consultation. ICC will further revise the Position Concentration Thresholds subsection to clarify that, if at any point, either the margin requirements or concentration charges grow to be a concern, ICC has the authority to execute special or intraday margin calls, and/or to increase the rate at which the concentration charges grow.

ICC will revise the Stress Testing subsection of the Back Testing and Stress Testing section to remove specific assumptions associated with the various stress scenarios used in the daily risk management process. For proprietary reasons, these specific assumptions will now be included in ICC's Stress Testing Framework. ICC will also clarify that the Risk Management Department presents stress results at the monthly Risk Committee meetings, as well as recommendations about next steps and recommendations to add or retire stress tests.

ICC will make edits to the Default Treatment section to remove outdated language stating that ICC seconds

traders eligible to serve on the ICE Clear Europe Default Management Committee. ICC will remove language regarding the auctioning of multi-currency portfolios for stylistic reasons, as the following sentences provide the information in a more accessible format.

ICC will revise the Cash Settlement subsection of the Settlement section to remove outdated language stating that ICC will evaluate a transition to a central bank model for U.S. cash if available.

ICC will make edits to the Market Investment Risk Management section of the RMF. Specifically, ICC will delete redundant language regarding ICC's investment policy that can be found in the ICC Treasury Operations Policies and Procedures.

ICC will enhance the ICC Clearing Participant Risk Management Questionnaire appendix to add more specific details that better capture the intent of the questions contained within.

ICC will revise the Overview section of the Clearing Participant Default Management Procedures appendix to refer more generally to ICC's default management procedures, as opposed to offering specific details provided elsewhere within the appendix. ICC will also revise the CDS Default Committee subsection to remove language stating that the CDS Default Committee Members are responsible for determining and adjusting minimum target prices for auctions. ICC will add language to the Hedging and Liquidation subsection to note that the CDS Default Committee is responsible for assisting ICC with respect to liquidating and hedging positions with the Non-Defaulting CPs, in consultation with the Chief Risk Officer. ICC will clarify the Auction Procedures/Competitive Bidding section to state that the auction bidding process will be open for an ICC specified minute window, as opposed to a specific 15-minute window.

ICC will remove the Collateral Assets Risk Management Framework Appendix 7 from the RMF and add it as an appendix to the ICC Treasury Operations Policies and Procedures. Accordingly, references within the Treasury Operations Policies and Procedures to the RMF will be updated. Additionally, ICC will update its list of banking relationships contained within the document. ICC will also make conforming and non-material edits to the document.

Finally, ICC will create the Risk Management Model Description Document, which includes the technical risk information previously included in

Appendices 3 to 5 of the RMF as well as information previously included in explanatory risk documents. Technical risk information, previously included in explanatory risk documents, will be incorporated consistently throughout the new Risk Management Model Description Document. The inclusion of such information does not constitute a substantive change to the RMF, as it serves to enhance the transparency of the technical details of the current implementation described in the previous RMF. In the Risk Management Model Description Document, ICC will provide additional technical information to improve the understanding and/or replication of the models. ICC will also provide improved logical connections among all model components, which, ICC asserts, should contribute to developing a general intuition for ICC's risk approach.

ICC represents that material changes to the Risk Management Model Description Document will be approved by ICC's Board of Managers and submitted, in the appropriate form to regulators consistent with other documents constituting ICC's RMF. The Risk Management Model Description Document will include a technical description of ICC's Initial Margin methodology (Recovery Rate Sensitivity Risk Analysis; Loss Given Default Risk Analysis; Liquidity Risk Analysis; Large Position Risk Analysis; Jump-To-Default Risk Analysis; Interest Rate Sensitivity Risk Analysis; Basic Risk Analysis; Spread Risk Analysis; Multi-Currency Portfolio Treatment; and Portfolio Loss Boundary Condition) and ICC's Guaranty Fund methodology (Guaranty Fund Size Estimation; Guaranty Fund Requirements and Periodic Adjustments; and General Wrong Way Risk and Contagion Stress Tests). Within the Spread Risk Analysis section, where ICC previously had listed explicit risk factors within the RMF, ICC will replace such explicit risk factors with the underlying formulas used in deriving such factors.

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act<sup>4</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such self-regulatory organization. Section 17A(b)(3)(F) of the Act<sup>5</sup> requires, among

<sup>4</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions.

The Commission finds that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>6</sup> and the rules and regulations thereunder applicable to ICC. The proposed rule change is designed to clarify ICC's risk management policies through the proposed revisions to the RMF and associated changes to the Treasury Operations Policies and Procedures. Additionally, the Risk Management Model Description Document should reflect the consolidation of certain technical risk documents into one singular document, further clarifying these technical issues. The Commission therefore believes that the proposed revisions to the RMF and Treasury Operations Policies and Procedures, as well as creation of the Risk Management Model Description Document, are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and transactions in accordance with Section 17A(b)(3)(F) of the Act.<sup>7</sup>

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>8</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>9</sup> that the proposed rule change (File No. SR-ICC-2015-017) be, and hereby is, approved.<sup>10</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Brent J. Fields,**  
Secretary.

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<sup>6</sup> 15 U.S.C. 78q-1.

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>8</sup> 15 U.S.C. 78q-1.

<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</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>11</sup> 17 CFR 200.30-3(a)(12).