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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-86378; File No. SR-ICC-2019-005]

July 15, 2019

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

I. Introduction

On May 16, 2019, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] a proposed rule change (SR-ICC-2019-005) to revise the ICC Stress Testing Framework. The proposed rule change was published in the Federal Register on May 24, 2019.[3] 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

The proposed rule change would revise the ICC Stress Testing Framework, which describes various stress tests executed by ICC and the governance process surrounding these tests. The proposed changes relate primarily to clarifications, updates, and clean-up changes to the descriptions of stress scenarios and governance throughout the Stress

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 34-85938 (May 24, 2019), 84 FR 25310 (May 31, 2019) (SR-ICC-2019-005) ("Notice").

Testing Framework, as well as the removal of a section of the Stress Testing Framework that is no longer relevant.[4]

A. Overall Clarifications and Updates

To foster clarity and enhance the readability and flow of the Stress Testing Framework, The proposed rule change would reorganize the Stress Testing Framework by moving various concepts and sections throughout the document. For instance, ICC would introduce the cover-2 requirement, including related definitions, earlier in the document. Specifically, the cover-2 requirement introduction will be moved from the Guaranty Fund Sizing Sensitivity Analysis section of the Stress Testing Framework to the Methodology section, which is an earlier section of the Stress Testing Framework. ICC also proposes to introduce the forward looking (hypothetically constructed) scenarios in the Methodology section as well, and to add language describing the forward looking (hypothetically constructed) scenarios, and move two paragraphs on their construction from the Predefined Scenarios section to the Methodology section. ICC also proposes to move the General Wrong Way Risk and Contagion Stress Test section from its current location between the adequacy and sensitivity analysis sections of the Stress Testing Framework to instead follow the Display of Discordant Behavior among Instrument Groups section.

ICC is also proposing changes to terminology throughout the Stress Testing Framework. For instance, it will refer to "reference entity group" as "Risk Factor Groups" ("RFG") throughout the document and define a Clearing Participant RFG as a Clearing Participant Affiliate Group. Other changes include specifying the reference

[4] This description summarizes the description found in the Notice, 84 FR at 25311-25312.

entities in a RFG for stress testing and the addition of language to further explain the calculation of Loss-Given Default and Expected Loss-Given Default with respect to the forward looking hypothetically constructed scenarios. ICC will also make various grammatical changes.

Other proposed changes relate to clarifying edits, utilization of bulleted lists, and cross-references to more clearly define scenarios and explain concepts throughout the Stress Testing Framework. For example, the proposed rule change would amend the 'Predefined Scenarios' section to indicate which scenarios are not expected to be realized as market outcomes and utilize bulleted lists to more clearly define the scenarios corresponding to the Historically Observed Extreme but Plausible Market Scenarios and the Historically Observed Extreme but Plausible Market Scenarios reflecting a baseline credit event. ICC proposes to cross-reference relevant sections when noting information found in those sections and make corresponding changes throughout the document. In describing the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios, ICC proposes to specifically refer to "reference entities" as "Single Name Risk Factors;" incorporate language on the associated adverse credit event analysis; and utilize a bulleted list to more clearly define the scenarios corresponding to the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios. In discussing the Extreme Model Response Test Scenarios, ICC proposes to add the word "Market" to the phrase "Historically Observed Extreme but Plausible Market scenarios" and to utilize a bulleted list to more clearly define the scenarios corresponding to the Extreme Model Response Test Scenarios. With respect to stress test

results, ICC will specify that it considers hypothetical losses on a cover-2 basis and cross-reference a section on the remediation of poor stress testing performance.

ICC also proposes to remove the 'Correlation Sensitivity Analysis based on Monte Carlo Simulations' section. Given the transition from a stress-based methodology to a Monte Carlo simulations-based methodology for certain components of the Initial Margin model, references to the Monte Carlo sensitivity analysis as a stress testing analysis in the Stress Testing Framework are no longer relevant.

B. Governance Clarifications and Updates

ICC is proposing several clarification and update changes related to the governance section of the Stress Testing Framework by making clarifying changes related to frequency of review and governance roles. Specifically, ICC proposes to clarify the frequency at which stress testing results are reviewed and discussed, as well as the various roles played by management in the governance of the Stress Testing Framework, including the Risk Committee, Chief Risk Officer, Risk Department, Risk Oversight Officer, and Risk Working Group.

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.[5] For the reasons given below, the Commission finds that

[5] 15 U.S.C. 78s(b)(2)(C).

the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act[6] and Rules 17Ad-22(b)(3) and 17Ad-22(d)(8) thereunder.[7]

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 a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to the extent applicable, derivative agreements, contracts and transactions; 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; and to comply with the provisions of the Act and the rules and regulations thereunder. [8]

As described above, the proposed changes to the Stress Testing Framework would introduce certain core concepts earlier in the document. The Commission believes that, by introducing ICC's cover-2 requirement in the Methodology section, which would be earlier in the document than its current placement, the proposed rule change would strengthen the documentation surrounding ICC's stress testing methodology by highlighting and emphasizing to the document's users, especially those involved in the daily risk management process, that the methodology's scenarios establish whether available financial resources are sufficient to cover hypothetical losses of the two greatest clearing participant affiliate groups.

Additionally, the proposed rule change updates terminology and makes other clarifying updates. Some examples of changes include: "CP AG" used to reference clearing participants under a common parent, "Lehman Brothers" shortened to "LB",

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6 15 U.S.C. 78q-1(b)(3)(F).

7 17 CFR 240.17Ad-22(b)(3) and 17 CFR 240.17Ad-22(d)(8).

8 15 U.S.C. 78q-1(b)(3)(F).

"sum" replaces "total," utilization of a table to list reports associated with stress scenarios, and minor placement and numbering changes to figures in the document. The Commission believes that these clarification updates enhance the readability of the Stress Testing Framework.

Further, as described above, the proposed rule change removes information that is no longer relevant (such as the 'Correlation Sensitivity Analysis based on Monte Carlo Simulations' section) and moves sections around (such as moving the 'General Wrong Way Risk and Contagion Stress Test' ahead of the adequacy and sensitivity analysis sections rather than between these sections). The Commission believes that these revisions enhance the documentation of the Stress Testing Framework by ensuring that it contains only currently relevant information and groups related sections in a non-disruptive manner

The Commission believes that by enhancing readability and ensuring that the documentation of ICC's Stress Testing Framework remains up-to-date, clear, and transparent, the clarification and clean-up changes described above will promote the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds within the meaning of Section 17A(b)(3)(F) of the Act.[9]

B. Consistency with Rule 17Ad-22(b)(3)

Rule 17Ad-22(b)(3) requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial

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[9] Id.

resources to withstand, at a minimum, a default by the two participant families to which it has the largest exposure in extreme but plausible market conditions.[10]

The Commission believes that the proposed changes to the Stress Testing Framework described above provide further clarity and transparency regarding ICC's stress testing practices by strengthening the documentation surrounding ICC's stress testing methodology through the introduction of the cover-2 concepts earlier in the document, updates to stress testing terminology to maintain uniformity, and providing additional clarity on the reporting of stress testing scenarios.

The Commission further believes that these proposed revisions enhance ICC's approach to identifying potential weaknesses in the risk management system with changes to procedures related to the identification and remediation of poor stress testing performance. Specifically, as described above, the proposed changes more clearly define the scenarios corresponding to the Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios and, with respect to stress results, specify that it considers hypothetical losses on a cover-2 basis and cross-references a section on remediation of poor stress testing performance. The Commission therefore believes that these proposed changes support ICC's ability 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, consistent with the requirements of Rule 17Ad-22(b)(3).[11]

C. Consistency with Rule 17Ad-22(d)(8)

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[10] 17 CFR 240.17Ad-22(b)(3).

[11] Id.

Rule 17Ad-22(d)(8) requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to have governance arrangements that are clear and transparent to fulfill the public interest requirements in Section 17A of the Act[12] applicable to clearing agencies, to support the objectives of owners and participants, and to promote the effectiveness of the clearing agency's risk management procedures.[13]

As described above, the proposed changes clarify the frequency at which stress testing results are reviewed and discussed as well as the actions taken upon identification of poor testing results. Further, the proposed changes describe the involvement of the Chief Risk Officer, Risk Oversight Officer, Risk Department, Risk Working Group, the Risk Committee, and the Board in addressing poor stress testing results. The Commission believes that by making such clarifications, the proposed changes strengthen the governance arrangements set forth in the Stress Testing Framework by clearly documenting responsibility for the identification and remediation of poor stress testing performance. As such, the Commission believes that these governance arrangements are consistent with the requirements of Rule 17Ad-22(d)(8).[14]

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[12] 15 U.S.C. 78q-1.

[13] 17 CFR 240.17Ad-22(d)(8).

[14] 17 CFR 240.17Ad-22(d)(8).

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[15] and Rules 17Ad-22(b)(3) and 17Ad-22(d)(8) thereunder.[16]

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act[17] that the proposed rule change (SR-ICC-2019-005) be, and hereby is, approved.[18]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[19]

Jill M. Peterson
Assistant Secretary

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

16 17 CFR 240.17Ad-22(b)(3) and 17 CFR 240.17Ad-22(d)(8).

17 15 U.S.C. 78s(b)(2).

18 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).

19 17 CFR 200.30-3(a)(12).

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