



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-100008; File No. SR-ICC-2024-003]

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the ICC Collateral Risk Management Framework

April 22, 2024.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4,² notice is hereby given that on April 16, 2024, 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 Collateral Risk Management Framework (“CRMF”). These revisions do not require any changes to the ICC Clearing Rules³ (the “Rules”).⁴

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 and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

¹ 15 U.S.C. 78s(b)(1)

² 17 CFR 240.19b-4

³ A copy of the ICC Clearing Rules can be found here: https://www.ice.com/publicdocs/clear_clear/ICE_Clear_Credit_Rules.pdf.

⁴ Capitalized terms used but not defined herein have the meanings specified in the Rules.

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 revise its CRMF. The CRMF describes ICC's collateral assets risk management methodology, including a description of ICC's quantitative risk management approach that accounts for the risk associated with fluctuations of collateral asset prices. ICC believes the proposed 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 discussed in detail as follows.

The primary purpose of the proposed revisions is to address an internal audit recommendation to remove the 2-day 99.9% Value-at-Risk ("VaR") risk measure from ICC's "haircut" model approach as such measure does not contribute to the determination of the collateral "haircut" factors and re-scale certain figures to accompany changes in the axis'.⁵ In addition, ICC proposes revisions to the CRMF to correct errors in certain figures contained in the CRMF, typographical errors, and to update the revision history.

Under the current CRMF, the computation of the "haircut" factors is achieved by comparing two risk measures: (i) the 5-day 99% Expected Shortfall risk measure and (ii) the 2-day 99.9% VaR risk measure, and then utilizing the more conservative of these two risk measures to determine the "haircut" factors that capture potential collateral value

⁵ Haircuts are a risk management tool where assets are priced and posted as collateral at a discount, otherwise known as the 'haircut' for the purpose of taking into account their native market risks (i.e., the risk of a decrease in value of the asset posted as collateral) as well as cross-currency risks (i.e., the risk of the change in value of one currency as compared to the value of another currency) when the collateral is to be used to cover an obligation denominated in a different currency.

losses.⁶ In general, the 5-day 99% Expected Shortfall risk measure is a more conservative measurement than the 2-day 99.9% VaR risk measure, given the nature of the calculation (i.e., expected shortfall versus VaR) and the longer measurement period (i.e., 5 days versus 2 days). As a result, the 5-day 99% Expected Shortfall risk measure is the more conservative risk measurement as compared to the 2-day 99.9% VaR risk measure, and it is expected that the 5-day 99% Expected Shortfall risk measure will continue to be the more conservative of these two risk measures. Therefore, the inclusion of the 2-day 99.9% VaR risk measure has not in the past contributed to the determination of collateral “haircut” factors, nor is it expected to in the future. As a result, removal of the 2-day 99.9% VaR risk measure will not impact ICC’s determination of collateral “haircut” factors and the removal of this unnecessary risk measure will simplify the CRMF.

Furthermore, the 2-day 99.9% VaR risk measure is inspired by the general regulatory margin-period-of-risk⁷ (“MPOR”) for exchange-traded instruments, while the 5-day 99% Expected Shortfall risk measure is inspired by the MPOR for over-the-counter traded instruments. As ICC clears only over-the-counter swaps with a minimum MPOR of five days and does not clear exchange-traded instruments (with a 2-day MPOR), references to 2-day MPOR in the CRMF are not necessary.

To achieve the foregoing, ICC proposes revisions to the CRMF to remove all references to the 2-day 99.9% VaR risk measure and references the exchange-traded 2-day MPOR, which appear in the following sections of the CRMF: Section I.; Section 1.a. (including removal from Eq. 3); Section I.b. (including removal from Eq.5); Section III.;

⁶ The 1-day 99% VaR and the 1-day 99% ES risk measures are preserved in current figures 10, 24, 25 and 37. This is because under the statistical model, underpinning the 2-day 99.9% VaR and the 5-day 99% ES risk measures, are calibrated on the 1-day changes as discussed further in Section I, Paragraphs 2 and 3 of the CRMF, which summarizes (that the above-named current figures are still relevant as they preserve the 1-day risk horizon along with the 99% VaR back-testing results since they reflect the same quantile that is ultimately used to estimate collateral haircuts, namely the 99% quantile.

⁷ Margin-period-of-risk or ‘MPOR’ is a maturity factor that is applied to reflect the length of exposure period over which the defaulted portfolio is exposed to changes in value.

Section IV.a.; Section IV.b.; and Section IV.c. With the removal of the 2-day 99.9% VaR risk measure from the current two risk measure comparison, it is necessary to change plural nouns to singular nouns throughout the CRMF. In connection with the removal of the 2-day 99.9% VaR risk measure, ICC proposes to delete Figure 11, Figure 12, Figure 26, Figure 27, Figure 28, Figure 29, Figure 38 and Figure 39 from the CRMF as all such figures relate to the 2-day 99.9% VaR risk measure, including 1-day 99.9% VaR which was preserved to calculate 2-day 99.9% VaR.

As a consequence of deleting the figures discussed in the immediately prior paragraph, it is necessary to renumber the remaining figures, and references to the remaining figures, in the CRMF as follows:

- renumber Figure 13 to Figure 11;
- renumber Figure 14 to Figure 12;
- renumber Figure 15 to Figure 13;
- renumber Figure 16 to Figure 14;
- renumber Figure 17 to Figure 15;
- renumber Figure 18 to Figure 16;
- renumber Figure 19 to Figure 17;
- renumber Figure 20 to Figure 18;
- renumber Figure 21 to Figure 19;
- renumber Figure 22 to Figure 20;
- renumber Figure 23 to Figure 21;
- renumber Figure 24 to Figure 22;
- renumber Figure 25 to Figure 23;
- renumber Figure 30 to Figure 24;
- renumber Figure 31 to Figure 25;
- renumber Figure 32 to Figure 26;

- renumber Figure 33 to Figure 27;
- renumber Figure 34 to Figure 28;
- renumber Figure 35 to Figure 29;
- renumber Figure 36 to Figure 30;
- renumber Figure 37 to Figure 31; and
- renumber Figure 40 to Figure 32.

In addition to the foregoing proposed revisions related to the removal of the 2-day 99.9% VaR risk measure and the exchange-traded 2-day MPOR, ICC proposes the following additional revisions to the CRMF to re-scale certain figures and correct typographical errors. Specifically, ICC proposes to re-scale Figure 12, Figure 13, and Figure 26 to adjust the chart from percentage to bps. The change from percentage to bps does not affect the data, but it affects the visualization of the chart because when re-scaling from percentage to bps, the scale will be larger as 1 bps equals 1/100 of a percentage point. The figure numbers below reflect the figure renumbering as described above:

- Updated footnote 1 to the most current link to the ICC Collateral Management presentation on the Intercontinental Exchange, Inc. website;
- Revised Figure 5: re-scaled Figure 5 to adjust bin sizes⁸ (which relate to the thickness of each bar in the histogram) and re-scaled from bps to the correct label of percentage (“%”)⁹ on the x-axis;
- Corrected and consistent use of defined term US TIPS;

⁸ ‘Bin size’ in risk data refers to the width of intervals used to group similar data points when analyzing risk. The underlying data remains the same regardless of the bin size. A change in bin size, while not including different data, might apportion the data more widely or more narrowly across the chart within newly created intervals. As the distributions change, so could the trend lines across the intervals change.

⁹ While the visual illustration of Figure 5 has changed (it is merely illustrative), the underlying data and estimations have remained unchanged.

- Corrected typographical error in label to Figure 8 which was incorrectly labeled Figure 5;
- Corrected and consistent use of defined term BTLs;
- Revised Figure 12: re-scaled Figure 12 from % to bps and added the correct label to x-axis;¹⁰
- Revised Figure 13: re-scaled Figure 13 from % to bps and added the correct label to x-axis;¹¹
- Revised Figure 16: corrected the label in the y-axis from % to bps;
- Revised Figure 17: corrected the label in the y-axis from % to bps;
- Revised Figure 20: corrected the label in the y-axis from % to bps;
- Revised Figure 21: corrected the label in the y-axis from % to bps;
- Revised Figure 26: re-scaled Figure 26 from % to bps and added the correct label to the x-axis;¹²
- Revised Figure 28: corrected the label in the y-axis from % to bps; and
- Revised Figure 30: corrected the label in the y-axis from % to bps.

Lastly, ICC proposes to revise Section VI of the CRMF to update the revision history.

(b) Statutory Basis

ICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act¹³ and the regulations thereunder applicable to it, including the

¹⁰ Figure 12's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

¹¹ Figure 13's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

¹² Figure 26's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

¹³ 15 U.S.C. 78q-1.

applicable standards under Rule 17Ad-22.¹⁴ In particular, Section 17A(b)(3)(F) of the Act¹⁵ 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 or for which it is responsible, and the protection of investors and the public interest.

As discussed herein, the proposed revisions to update the CRMF to remove the 2-day 99.9% VaR risk measure that does not contribute to the estimate of the collateral “haircut” factors and removes the unnecessary references to exchange-traded 2-day MPOR. The proposed revisions also correct errors and re-scale certain figures in the CRMF among other typographical errors. The proposed revisions would not amend ICC’s methodology and will not impact ICC’s determination of collateral “haircut” factors. In addition, the removal of the 2-day 99.9% VaR risk measure would simplify the CRMF and would promote effective operation of the collateral assets risk management model by eliminating an unused risk measure. In ICC’s view, such changes promote transparency by removing an unused risk measure and only including relevant parameters, computations, equations, definitions, and figures to describe relevant processes, which would also ensure that responsible parties carry out their assigned duties effectively and aid them in doing so. Further, the correction and clarification changes ensure transparency, readability, and clarity by avoiding unnecessary repetition and duplication in the defined terms in the CRMF and correcting drafting errors. ICC believes that having policies and procedures that clearly and accurately document its risk measurements associated with fluctuations of collateral asset prices is an important component to the effectiveness of ICC’s risk management system and support ICC’s

¹⁴ 17 CFR 240.17Ad-22.

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

ability to maintain adequate financial resources and collateral management resources. Accordingly, ICC believes that the proposed rule change is 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 17A(b)(3)(F) of the Act.¹⁶

Rule 17Ad-22(e)(4)(ii)¹⁷ 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 revisions enhance ICC's ability to manage its financial resources by providing further clarity and transparency on its collateral assets risk management approach through the updated risk measures in the CRMF, which will promote the effective and accurate function of the collateral assets risk management model. The proposed rule change would also enhance the implementation of various processes and procedures associated with the collateral assets risk management methodology to ensure that responsible parties effectively carry out their associated duties, including by providing relevant parameters, computations, equations, definitions, and figures. As such, the proposed amendments would support

¹⁶ Id.

¹⁷ 17 CFR 240.17Ad-22(e)(4)(ii).

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).¹⁸

Rule 17Ad-22(e)(5)¹⁹ requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to limit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually. ICC would continue to limit the assets that ICC accepts as collateral to those with low credit, liquidity, and market risks under the proposed rule change. Collateral haircut factor estimations are executed daily, and the ICC Risk Department reviews the results and determines any updates, at least monthly. Haircut factors can be updated more frequently at the discretion of the CRO or designee. Furthermore, the CRMF continues to provide a clear framework for ICC to set and enforce appropriately conservative haircuts for acceptable collateral assets. The proposed revisions will improve clarity of the process of calculating the conservative collateral haircut factors that are executed daily. As such, the amendments would satisfy the requirements of Rule 17Ad-22(e)(5).²⁰

(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 remove the 2-day 99.9% VaR risk measure and exchange-traded 2-day MPOR language do not amend ICC's methodology and would result in no change to market participants. ICC does not believe these

¹⁸ Id.

¹⁹ 17 CFR 240.17Ad-22(e)(5).

²⁰ Id.

amendments would affect the costs of clearing or the ability of market participants to access clearing. 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ICC-2024-003 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-2024-003. 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 (<https://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 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.ice.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-2024-003 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.²¹

²¹ 17 CFR 200.30-3(a)(12).

Sherry R. Haywood,

Assistant Secretary.

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