SECURITIES AND EXCHANGE COMMISSION


March 12, 2018.

I. Introduction

On January 16, 2018, 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 ("Act"), and Rule 19b–4 thereunder, a proposed rule change (SR–ICC–2018–001) to revise: (i) ICC’s Clearing Rules to support the clearing of a new transaction type; and (ii) the ICC Risk Management Model Description Document, the ICC Risk Management Framework, the ICC Stress Testing Framework, and the ICC Liquidity Risk Management Framework to incorporate certain modifications to its risk management methodology. The proposed rule change was published for comment in the Federal Register on January 26, 2018. 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 proposed revisions to its Rules, Risk Management Model Description Document, Risk Management Framework, Stress Testing Framework, and Liquidity Risk Management Framework in order to provide for the clearing of a new transaction type, the Standard European Senior Non-PREFERRED Financial Corporate ("STEFIC") Reference Entity. ICC also proposed amending Rule 26H–102 to state that for a STEFC Reference Entity where the transaction type is the Standard European Senior Non-PREFERRED Financial Corporate, the STEFC Contracts Reference Obligation shall be determined in accordance with the Additional Provisions for Senior Non-PREFERRED Reference Obligations as published by the International Swaps and Derivatives Association. In addition, ICC proposed to incorporate certain conforming changes to Rule 26H–303 and Rule 26H–315 to add references to the new transaction type.

B. Changes to ICC Risk Management Methodology

As currently constructed, ICC’s risk management methodology takes into consideration the potential losses associated with idiosyncratic credit events, which ICC refers to as “Loss-Given-Default” or “LGD.” ICC deems each Single Name (“SN”) reference entity a Risk Factor, and each combination of definition, doc-clause, tier, and currency for a given SN Risk Factor as a SN Risk Sub-Factor. ICC currently measures losses associated with credit events through a stress-based approach incorporating three recovery rate scenarios: A minimum recovery rate, an expected recovery rate, and maximum recovery rate. ICC combines exposures for Outright and index-derived Risk Sub-Factors at each recovery rate scenario. ICC currently uses the results from the recovery rate scenarios as an input into the Profit/Loss-Given-Default ("PL/LGD") calculations at both the Risk Sub-Factor and Risk Factor levels. For each Risk Sub-Factor, ICC calculates the PL/LGD as the worst credit event outcome, and for each Risk Factor, ICC calculates the PL/LGD as the sum of the worst credit outcomes per Risk Sub-Factor. These final PL/LGD results are used as part of the determination of risk requirements. ICC proposed changes to its LGD framework at the Risk Factor level with respect to the LGD calculation. Specifically, ICC proposed a change to its approach by incorporating more consistency in the calculation of the PL/LGD by using the same recovery rate scenarios applied to the different Risk Sub-Factors which are part of the considered Risk Factor. For each Risk

3 Capitalized terms used in this order, but not defined herein, have the same meaning as in the ICC Clearing Rules.
include the Standard European Senior Non-PREFERRED Financial Corporate transaction type as an Eligible STEFC Reference Entity to be cleared by ICC.
5 Notice, 82 FR at 3821.
6 Id.
7 Id.
8 Id.