II. Docketed Proceeding(s)


This Notice will be published in the Federal Register.

Stacy L. Ruble,
Secretary.

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II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

In its filing with the Commission, ICE Clear Europe 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 those statements may be examined at the places specified in Item IV below. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

(a) Purpose

ICE Clear Europe is proposing to adopt the Revised Recovery Plan, which would supersede its current recovery plan (the “Existing Recovery Plan”) in order to make certain overall enhancements, as discussed herein. The Revised Recovery Plan, among other aspects, identifies certain critical clearing services and addresses the Clearing House’s tools, procedures and options for addressing recovery from scenarios that threaten its ability to continue to provide clearing services. The Recovery Plan is based on, and is intended to be consistent with, the Rules and Procedures, as well as Clearing House’s existing risk management frameworks, policies and procedures.4

I. Summary of Revisions

The proposed Revised Recovery Plan is intended to enhance the Clearing House’s recovery plan in the following general respects:

- Specify more clearly ICE Clear Europe’s framework for governance and decision making in recovery scenarios;
- More clearly link the different elements of the plan;
- Present the assessment of recovery tools in a way that clearly and comprehensively addresses the characteristics set out in the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions Final Report on Resilience of Central Counterparties (CCPs): Further guidance on the PFMI
dated June 2017 (the “CPMI–IOSCO recovery guidance”);
- Focus on recovery-specific scenarios and tools, as opposed to the business as usual (“BAU”) management of risks, which is addressed in other procedures and policies;
- Address intragroup and external interdependencies in greater depth;
- Address ICE Clear Europe’s plan for communication and coordination of action to regulators and other stakeholders; and
- Provide for periodic testing of the recovery plan.

The proposed Revised Recovery Plan would make certain specific modifications to the Existing Recovery Plan in furtherance of these general goals, as follows:

1. The appendices in the Existing Recovery Plan would be removed as unnecessary, except for the appendices on committee and organizational structure and stress scenario analysis.

2. The Revised Recovery Plan would more clearly address decision-making during recovery. More specifically:

a. The role and interaction with the Board would be clarified, requiring (i) the Board to convene before enacting the Revised Recovery Plan and before deciding to exercise recovery options, or (ii) if the Board could not be convened in a timely manner, then the President to convene the Board after the decision for ratification;

b. Decision-making considerations for each recovery option would be included, including the management information that would be used, such as relevant regulatory capital information in a non-default loss scenario; and

c. Plans relating to communication with regulators would be incorporated, including the manner in which ICE Clear Europe would inform regulators before enacting the plan or exercising recovery options.

3. The Revised Recovery Plan would be restructured for ease of use of the plan by management and the Board in a recovery situation. In particular:

a. The plan would include a playbook setting out the progression of actions in recovery for default loss and non-default loss scenarios, which would be subject to annual testing; and

b. The triggers for recovery would be made clear and central to the plan.

4. The Revised Recovery Plan would present an assessment of its recovery tools in a manner that more explicitly and comprehensively addresses the characteristics set out in the CPMI–IOSCO recovery guidance.

5. The Revised Recovery Plan would more clearly focus on recovery-specific scenarios and tools and would make the

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3 Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules [the “Rules”].
boundary between BAU tools and recovery tools clearer by:

a. Focusing on situations in which the firm’s viability would be under threat; and

b. Excluding the operational risk scenarios to ensure the focus is on recovery, not other business continuity scenarios.

6. The Revised Recovery Plan would provide increased focus on intragroup and external dependencies for critical services and would document its plans for related communication and coordination of action through:

a. Addressing the implications of interdependencies on its critical services, which primarily relate to its capital replenishment framework which depends upon continued financial support from the Intercontinental Exchange, Inc. group (“ICE Group”);

b. Including further analysis of its dependencies on third-party services and mitigations, which largely relate to services provided through ICE Group, but also include SWIFT access;

c. Describing how potential coordination with other CCPs and financial market infrastructures (“FMIs”) would be approached (both for ICE Group CCPs and FMIs and non-ICE Group CCPs and FMIs); and

d. Giving greater consideration to procyclicality and financial stability implications for Clearing Members due to ICE Clear Europe’s exercise of its recovery options.

7. The Revised Recovery Plan would require annual testing of the plan via a table-top exercise to ensure ICE Clear Europe staff’s understanding of the plan and its implementation. The testing would work through specific scenarios which would take into consideration the playbook, management information, practical implementation of recovery options, communication pathways to be used, the necessity of additional resources and which systems would be involved in each recovery option.

II. Summary of the Revised Recovery Plan

(i) Overview

As with the Existing Recovery Plan, the Revised Recovery Plan would identify the critical services that ICE Clear Europe provides, and the business functions that support those services. In ICE Clear Europe’s view, its clearing services (for both the F&O and CDS product categories), and its related treasury and banking services, represent its critical services. The Revised Recovery Plan would also identify the market participants that rely on ICE Clear Europe’s services and the service providers supporting its critical services. The Revised Recovery Plan would also address recovery triggers, scenarios, early-warning indicators, recovery options, decision-making governance, limitations, assumptions and testing of the plan. The Revised Recovery Plan would not incorporate day-to-day risk management processes and tools already in place in the Rules and Procedures, as those do not relate to recovery scenarios. Wind-down and resolution scenarios would be covered in separate policies and procedures. The Revised Recovery Plan would not address recovery plans for exchanges or markets cleared by ICE Clear Europe, or the recovery of other FMIs that it interacts with.

The recovery options set out in the Revised Recovery Plan are intended to be extensive, giving the Clearing House the ability to cover default losses (through eliminating any remaining variation margin and mark-to-market payment obligations by, in effect, margin haircutting and tear-up of remaining positions, liquidity shortfalls (by delaying payment obligations) and investment losses (after a $90 million threshold, by allocating such losses up to the level of margin and guaranty fund across all Clearing Members). The Revised Recovery Plan would also take into account the Clearing House’s powers of assessment as well as pre-funded resources.

(ii) Critical Services, Service Providers, and Interdependencies

The Revised Recovery Plan would identify ICE Clear Europe’s critical services: F&O clearing; CDS clearing; and treasury and banking services (“TBS”). The plan would describe the entities that depend on ICE Clear Europe’s critical services, the need to consider capital and liquidity impacts on market participants when assessing the appropriate recovery options, and the importance of early and ongoing communication with regulators and other FMIs via regulators.

The Revised Recovery Plan would also describe the critical services that the Clearing House relies upon from investment agents, APS banks, central banks, data providers, custodians, physical delivery agents, ICE Group exchanges, ICE Group clearing houses and ICE technology and operations groups. It would detail how the Clearing House mitigates dependence on service providers through using multiple substitutable providers, providers who prioritize operational continuity through multiple backup of resilience and redundancy, and contractual protections through appropriate termination periods and limiting clauses that would permit service providers to alter or terminate contracts if ICE Clear Europe were under financial stress. In general, under the plan, investment agents, APS banks, central banks and data providers would not be dependencies because of their substitutability. If necessary, for such service providers, ICE Clear Europe could run certain processes itself or apply alternative processes to achieve similar results.

The Revised Recovery Plan would address the Clearing House’s dependencies on custodians, physical delivery agents, ICE Group exchanges, other ICE Group clearing houses, and ICE Group technology and operations services. The plan would also address key systems and technological infrastructure on which the Clearing House relies. The plan would detail how the risk of these services being withdrawn are mitigated through multiple redundancies, business continuity and disaster recovery arrangements that are regularly tested, incident follow-up, regular performance metrics, veto rights over proposed changes and long notice periods. The plan would further address the possibility of Clearing Members defaulting on obligations to other ICE Group CCPs or third party CCPs and would note that ICE Clear Europe would coordinate with other CCPs through various means.

(iii) Recovery Scenarios, Triggers and Early Warning Indicators

The Revised Recovery Plan would address two principal recovery scenarios: (i) Default losses, in which case the plan would be triggered when the guaranty fund is (or is likely to be) exhausted and there are still losses to cover; and (ii) non-default losses, in which case the plan would be triggered when ICE Clear Europe’s base capital is (or is likely to be) breached.

The Revised Recovery Plan would distinguish between BAU risk management and recovery scenarios (in which, by definition, BAU risk management is insufficient to address the relevant losses), and relevant options and tools available for each. The Revised Recovery Plan would also address scenarios in which operational events (which are normally addressed through business continuity and disaster recovery plans) could trigger operation of the recovery plan, such as if the capital that ICE Clear Europe needs to fix an operational or technological problem breaches, or is likely to breach, its base capital and hit the non-default loss trigger.
The Revised Recovery Plan considers cases where ICE Clear Europe’s early warning metrics and indicators may indicate that a recovery trigger would be hit. Early warning indicators for default loss scenarios would be based on default management information showing the size of the Clearing Members’ exposures compared to the collateral ICE Clear Europe holds against them and the size and complexity of their positions, which, together with market volatility information, would help ICE Clear Europe assess whether auctions would be likely to be successful in balancing the book before running the auctions. With respect to non-default losses, ICE Clear Europe would monitor its eligible capital against target thresholds each day through risk appetite metrics, which provide alerts and escalation to management or the ICE Clear Europe Board before ICE Clear Europe breaches its base capital.

(iv) Recovery Options

ICE Clear Europe’s recovery options are generally set out in the Rules and Procedures. The Revised Recovery Plan would describe key aspects of those options as follows:

- Powers of assessment (“PoA”) (Rules 909)—which enables ICE Clear Europe to require Clearing Members to pay additional funds to further mutualize default losses, up to the cap specified in the Rules. PoA can only be used in a default loss scenario.
- Reduced Gains Distribution (“RGD”) (Rule 914)—which allows ICE Clear Europe to withhold mark-to-market margin gains instead of paying them out to the relevant Clearing Members, in order to cover losses. This would likely need to be used in conjunction with other recovery options as it would not remove the source of the risk. This could only be used in a default loss scenario and only after PoA have been called.
- Partial Tear-Ups (Rule 915)—which allows ICE Clear Europe to ‘tear up’ positions, in effect cancelling them or reducing or removing the payment obligations due on those positions. This could only be used in a default loss scenario and only after an auction has been attempted.
- Payment Delays (Rule 110)—which allows ICE Clear Europe to delay transfers, deposits and payments to help alleviate liquidity shortfalls and likely needs to be used in conjunction with other recovery options. This could be used in both default and non-default loss scenarios.
- Investment Loss Allocation (Rule 919)—which allows ICE Clear Europe to allocate investment losses to Clearing Members provided it has invested in accordance with its investment management policy. This could only be used where there are investment losses.
- Invoicing Back (Rule 104)—which allows ICE Clear Europe to cancel positions in certain non-default loss situations, limited to force majeure, illegality and impossibility.
- Capital Replenishment Framework (“CRF”)—which covers ICE Clear Europe’s options for replenishing capital, including raising additional capital through the ICE Group and third parties, as well as insurance coverage. This could be used in both default and non-default loss scenarios. The timing of receipt of additional capital would depend on the specific source of additional capital and would not be guaranteed.

The revised recovery options would describe the goals and procedures for designing recovery options, including that recovery options are designed to be comprehensive, effective, transparent, measurable, manageable and controllable. They are intended to create appropriate incentives and minimize negative impact. The plan would also describe the governance process for development of recovery options that impact Clearing Members. The process would include input from stakeholders, including Clearing Members, customers, regulators and ICE Clear Europe’s shareholder. The plan also reflects the existing governance procedures for changes to the Rules (including recovery options therein).

The proposed Revised Recovery Plan would discuss the manner in which ICE Clear Europe’s recovery options meet its standards for being comprehensive and effective, reliable, enforceable, transparent and measurable and for creating appropriate incentives and minimizing negative impact both individually and collectively, as they would give ICE Clear Europe the ability to fully cover default losses, liquidity shortfalls and investment losses (above the relevant threshold).

The plan would also set out in detail the decision-making considerations for each recovery option. These include the scenarios in which recovery options may be used and the expected effectiveness or scope of coverage for those options, whether the option can be used alone or in conjunction with other options, the time at which use of the option may be considered, expected impacts on market participants and others and effects on confidence in ICE Clear Europe or its clearing system, among other considerations.

(v) Decision-Making, Governance and Communications

The Revised Recovery Plan would require that the President attempt to convene the Board for approval of material recovery decisions and keep regulators informed in advance of material decisions, assuming this could be done in a timely manner. If the Board could not be convened in advance of such a decision, it would be convened thereafter to ratify or modify the decision. The President would be supported by the Default Management Committees in a default loss scenario and by the Executive Risk Committee in a non-default loss scenario. Consistent with the Rules and Procedures, exercising the recovery options would not require the approval of Clearing Members, exchanges or any other external stakeholders. In making decisions regarding the use of recovery options, however, the President and the Board would need to take into consideration the interests of ICE Clear Europe, Clearing Members, customers, other stakeholders and the broader goal of providing safe and sound CCP services to reduce systemic risk in an efficient and legally compliant manner.

The Revised Recovery Plan would state ICE Clear Europe’s communication and coordination objectives in recovery to (i) provide Clearing Members, regulators and the wider market with timely and accurate information and (ii) ensure effective coordination and escalation across affiliated ICE Group exchanges, clearing houses and FMIs. The Revised Recovery Plan would also address coordination with other ICE Group exchanges, clearing houses and FMIs. The plan would also contemplate wider communications with Clearing Members and other market participants.

ICE Clear Europe would aim to keep regulators informed in advance of triggering the Revised Recovery Plan or exercising recovery options, while being mindful of the need to take timely action. ICE Clear Europe would seek to maintain close and continuous engagement with the regulators during the implementation of the Revised Recovery Plan until ICE Clear Europe returns to normal operational conditions or activates the Wind-Down Plan (in which case other regulatory coordination procedures apply). ICE Clear Europe would participate in coordination and communication with other relevant stakeholders organized by the regulators.

(vi) Recovery Playbook

The Revised Recovery Plan would set out the recovery approach in a default
loss and non-default loss scenario through a recovery playbook. The playbook is intended as an example for how recoveries might progress, rather than a prescriptive instruction manual for all recovery situations. The playbook identifies key steps in the recovery process, including declaring a default event and determining the likely scope of losses. Board consultation, triggering the plan, communicating with regulators, and selecting the particular recovery options.

(vii) Limitations and Assumptions

The Revised Recovery Plan would identify the key assumptions and limitations that could reduce its effectiveness and may fall outside of ICE Clear Europe’s control. These include the following: (i) The plan is based on legal certainty of the framework in which the Clearing House operates; (ii) the plan relies on market infrastructure ICE Clear Europe does not control and for which there are no practical alternatives; (iii) the plan assumes (for the most part) the continued support of ICE Inc.; and (iv) certain recovery options are time limited or time dependent. The plan would review the reasons why these assumptions and limitations are appropriate, and certain determinations it has made in respect thereof.

(viii) Appendices

The Revised Recovery Plan would include the following appendices: (i) ICE Clear Europe Committee Structure setting out board and executive level governance; and (ii) stress scenario analysis.

(b) Statutory Basis

ICE Clear Europe believes that the Revised Recovery Plan is consistent with the requirements of Section 17A of the Act \(^5\) and the regulations thereunder applicable to it, including the standards under Rule 17A-22. \(^6\)

Section 17A(b)(3)(F) of the Act \(^7\) 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, the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, and the protection of investors and the public interest. In addition, Rule 17A-22(e)(3)(ii) \(^8\) requires that each covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes plans for the recovery and orderly wind-down of the covered clearing agency necessitated by credit losses, liquidity shortfalls, losses from general business risk, or any other losses.

The Revised Recovery Plan is intended to meet the requirements of Rule 17A-22(e)(3)(ii), and be consistent with the requirements of Section 17A(b)(3)(F) of the Act. The Revised Recovery Plan is designed to enhance the Clearing House’s Existing Recovery Plan, among other matters, by being clearer and easier to apply, more clearly distinguishing recovery scenarios from ordinary operations, addressing governance requirements generally and for particular recovery options, and more clearly addressing certain critical dependencies faced by the Clearing House. The Revised Recovery Plan does not itself modify the recovery options themselves, which are largely set out in the Clearing House’s Rules and Procedures. The Revised Recovery Plan, like the Existing Recovery Plan, would build on these provisions of the Rules and Procedures to set out the recovery options that may be used to address both default loss scenarios and non-default loss scenarios (such as liquidity shortfalls, investment losses and losses from general business risk), so that the Clearing House could restore normal clearing operations. The plan would address coordination with regulators and other stakeholders.

Overall, the plan would form a key part of the risk management of the Clearing House, and build on the existing risk management processes and procedures applicable to BAU scenarios. As a result, in ICE Clear Europe’s view, the Revised Recovery Plan would satisfy the requirements of Rule 17A-22(e)(3)(ii). \(^9\) The plan would also further the Clearing House’s ability to maintain the prompt and accurate clearance and settlement of transactions and the safeguarding of securities and funds in the custody or control of the Clearing House or for which it is responsible, including in severe default and non-default loss scenarios, and thereby promote the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act. \(^10\)

ICE Clear Europe further notes the requirement in Rule 17A-22(e)(15) \(^11\) to hold sufficient liquid net assets funded by equity to cover potential general business losses so that the covered clearing agency can continue operations and services as a going concern if those losses materialize, including by (i) determining the amount of liquid net assets funded by equity based upon its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken, and (ii) holding liquid net assets funded by equity equal to the greater of either (x) six months of the covered clearing agency’s current operating expenses, or (y) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency, as contemplated by the recovery and wind-down plans established under Rule 17A-22(e)(3)(ii).

ICE Clear Europe has determined that it holds equity capital at least sufficient to cover the costs of a recovery of its critical clearing services under the Revised Recovery Plan, consistent with the requirements of Rule 17A-22(e)(15). \(^12\)

In compliance with Rules 17A-22(e)(2), \(^13\) the proposed Revised Recovery Plan would provide greater detail with respect to decision-making during recovery as well as the role and interaction with the Board, other executives, regulators and other stakeholders, providing greater clarity with respect to ICE Clear Europe’s governance arrangements and lines of

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12 17 CFR 270.17A-22(e)(2).
13 17 CFR 270.17A-22(e)(2).
responsibility and ensuring that the interests of other stakeholders are considered.

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

ICE Clear Europe does not believe the proposed Revised Recovery Plan would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The Revised Recovery Plan would provide greater clarity and make certain enhancements with respect to ICE Clear Europe’s recovery planning. The plan does not itself change the rights or obligations of the Clearing House or Clearing Members, and is based on the recovery options established in the Rules and Procedures. The Revised Recovery Plan has been designed to meet specific regulatory requirements concerning recovery planning, and is applicable to all clearing activities. ICE Clear Europe does not believe the amendments would impact competition among Clearing Members or other market participants, or affect the ability of market participants to access clearing generally. While implementation of the Recovery Plan, and in particular implementation of the plan in a severe loss scenario, would likely impose costs on Clearing Members or other market participants, such costs are consistent with the Rules and Procedures, and are, in ICE Clear Europe’s view, appropriate in light of the goals of recovery and maintenance of critical clearing service in accordance with applicable regulations.

(C) Clearing Agency’s Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments relating to the proposed amendments have not been solicited or received by ICE Clear Europe. ICE Clear Europe will notify the Commission of any written comments received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change, Security-Based Swap Submission and Advance Notice 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 the 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, security-based swap submission or advance notice is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments
• Use the Commission’s internet comment form (http://www.sec.gov/rules/sro.shtml) or
• Send an email to rule-comments@sec.gov. Please include File Number SR–ICEEU–2019–013 on the subject line.

Paper Comments
• Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1090.

All submissions should refer to File Number SR–ICEEU–2019–013. 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, security-based swap submission or advance notice that are filed with the Commission, and all written communications relating to the proposed rule change, security-based swap submission or advance notice 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 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe’s website at https://www.theice.com/clear-credit/regulation. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–ICEEU–2019–013 and should be submitted on or before June 18, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.14

Eduardo A. Aleman,
Deputy Secretary.

(File Doc. 2019–10986 Filed 5–24–19; 8:45 am)

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 33480; 812–14955]

BlackRock Capital Investment Corporation, et al.

May 21, 2019.

AGENCY: Securities and Exchange Commission (“Commission”).

ACTION: Notice.

Notice of application for an order under sections 17(d) and 57(l) of the Investment Company Act of 1940 (the “Act”) and rule 17d–1 under the Act to permit certain joint transactions otherwise prohibited by sections 17(d) and 57(a)(4) of the Act and rule 17d–1 under the Act.

SUMMARY OF APPLICATION: Applicants request an order to permit certain business development companies and closed-end management investment companies to co-invest in portfolio companies with each other and with affiliated investment funds.
