

the Commission's Rules of Practice, the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization ['SRO'] that proposed the rule change."<sup>28</sup> The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding, and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.<sup>29</sup> The Commission concludes that, because NYSE Arca has not demonstrated that its proposal is designed to prevent fraudulent and manipulative acts and practices or to protect investors and the public interest, the Exchange has not met its burden to demonstrate that its proposal is consistent with Section 6(b)(5) of the Exchange Act.<sup>30</sup> For this reason, the Commission must disapprove the proposal.

#### IV. Conclusion

For the reasons set forth above, the Commission does not find, pursuant to Section 19(b)(2) of the Exchange Act,<sup>31</sup> that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange, and in particular, with Section 6(b)(5) of the Exchange Act.<sup>32</sup>

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Exchange Act, that proposed rule change SR-NYSEArca-2020-56 is disapproved.

manipulation that the proposal raises, as described above.

<sup>28</sup> Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

<sup>29</sup> See *id.*

<sup>30</sup> In disapproving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f). Although the commenter (see SIFMA Letter, *supra* note 14, at 4) asserts that the current Beneficial Holders Rule puts newer and smaller sponsors at an unnecessary disadvantage to larger sponsors having the enterprise-wide scale and distribution reach to gather assets in the months after launch, neither the commenter nor the Exchange has provided data to support this conclusion.

<sup>31</sup> 15 U.S.C. 78s(b)(2).

<sup>32</sup> 15 U.S.C. 78f(b)(5).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>33</sup>

**J. Matthew DeLesDernier**,

*Assistant Secretary*.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-91240; File No. SR-ICEEU-2021-006]

### Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Relating to the ICE Clear Europe CDS Clearing Stress Testing Policy, CDS End of Day Price Discovery Policy, CDS Risk Model Description and CDS Risk Policy and CDS Parameters Review Procedures

March 2, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 23, 2021, ICE Clear Europe Limited ("ICE Clear Europe" or the "Clearing House") filed with the Securities and Exchange Commission ("Commission") the proposed rule changes described in Items I, II and III below, which Items have been prepared by ICE Clear Europe. 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

ICE Clear Europe Limited proposes to modify certain provisions of its CDS Clearing Stress Testing Policy, CDS End of Day Price Discovery Policy, CDS Risk Model Description and CDS Risk Policy (together, the "Documents") and to adopt a new document titled CDS Parameters Review Procedures (the "Parameters Procedures").

#### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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 these statements may be examined at the places specified in Item IV below. ICE

<sup>33</sup> 17 CFR 200.30-3(a)(12).

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

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

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

##### (a) Purpose

ICE Clear Europe is proposing to amend the Documents and institute the new Parameters Procedures principally to describe more fully certain existing Clearing House practices, as discussed herein. ICE Clear Europe is also proposing to make certain enhancements to CDS stress testing, specifically to incorporate the impact of the COVID-19 pandemic into its stress testing framework.

##### CDS End of Day Price Discovery Policy

The amendments to this policy would generally clarify the process to determine prices for a particular instrument when fewer than three Clearing Members have open interest in that instrument, in order to provide more reliable pricing in that scenario. The amendments would also make minor terminology updates to conform uses of defined terms, correctly reference various ICE Clear Europe personnel and operations and make similar typographical corrections throughout the document and add a new table.

Currently, the CDS End of Day Price Discovery Policy states that if fewer than three CDS Clearing Members have cleared open interest in an instrument, ICE Clear Europe may require all CDS Clearing Members to provide a price submission for that instrument. ICE Clear Europe proposes to supplement this concept to provide more flexibility to ensure enough submissions to enable effective determination of reliable end-of-day prices and thereby facilitate an accurate and stable variation margin process. Specifically, the amendments are designed to produce more reliable prices by increasing the probability of receiving multiple submissions. As amended, the policy would state that ICE Clear Europe believes that tradeable quotes submitted by CDS Clearing Members are the preferred source of data and should be used where possible and reliable, meaning where there is more than one CDS Clearing Member with which the quote could be crossed. Where there are not enough CDS Clearing Members to enable tradeable quotes (*i.e.*, quotes at which a member would transact) to be crossed with more than one CDS Clearing Member (*i.e.*, fewer than three CDS Clearing Members

with open interest in the relevant instrument), then ICE Clear Europe would switch to rely on indicative quotes and would require these from all CDS Clearing Members. (For this purpose, an indicative quote is a reasonable estimate of the market price but does not necessarily reflect a price at which the member would transact.) When requesting indicative quotes in this manner, ICE Clear Europe would not require CDS Clearing Members to enter into firm-trades in these instruments. The minimum number of three CDS Clearing Members, below which indicative quotes would be used, would be subject to ongoing review by ICE Clear Europe as to whether this is the appropriate threshold given market circumstances.

A new Table 4 showing an example of an assignment of index risk factors to market proxy groups would be added pursuant to the amendments relating to end-of-day bid-offer widths (“EOD BOWs”) for index instruments. The new table does not reflect a change in practice and is intended for clarity. The table would show the index risk factors for each of the CDX and iTraxx market proxy groups. A reference to Table 2 in the EOD BOWs section would be updated to Table 4. Existing references to Tables 4 through 7 would be respectively updated to Tables 5 through 8.

In the governance section addressing material changes to the EOD price discovery methodology, spread-to-price conversion determinants or parameters, the amendments would clarify that review would be performed by the TAG (instead of the TAC) and the Product Risk Committee (instead of the Risk Committee). This amendment is intended to reflect current practice.

Numerous minor typographical and similar updates would be made throughout the CDS End of Day Price Discovery Policy. For example, the term “Clearing Participant” would be updated to “Clearing Member”, “CP” would be updated to “CM” and “Trading Advisory Committee” (or “TAC”) would be updated to “Trading Advisory Group” (or “TAG”), to be consistent with terminology used in the Rules and other ICE Clear Europe documentation. The statement that the trading desks at each self-clearing member (“SCM”) would be required to copy ICE Clear Europe on the intraday quotes they provide market participants via email would be updated to requested to copy. Certain outdated cross-references would be removed. With respect to the red matters in the escalation and notification protocol for appetite metrics, the Board and

Executive Risk Committee would be notified immediately instead of as soon as possible. Other minor clean-up changes would also be made to improve readability and clarity.

#### CDS Clearing Stress Testing Policy

ICE Clear Europe is proposing to add new stress test scenarios to this policy and to make certain other clarifications and enhancements to the description of the stress-testing methodology in order to capture the large market moves experienced during the COVID-19 pandemic, strengthen the CDS discordant stress test scenarios and better reflect the current governance structure related to stress testing.

#### Purpose

The discussion of the purpose of Clear House stress testing practices, including as to how they are integrated into ICE Clear Europe’s risk procedures and governance structure, would be revised to reflect the Clearing House’s current governance framework, and specifically to reference the Model Oversight Committee (“MOC”) and to remove an outdated reference to the Board Risk Committee (“BRC”). The amendments would also provide that any terms not defined in the policy would be defined in the ICE Clear Europe CDS Risk Policy and the Rules, instead of only in the Rules.

#### Methodology

The general methodology section of the policy would be amended to add a discussion of stress testing in the context of wrong way risk. For this purpose, positions in index risk factors and single-name risk factors that exhibit high levels of association with a Clearing Member’s portfolio are combined in a sub-portfolio, which is subject to additional stress testing analysis. The amendments to this section do not reflect a change in Clearing House practice but are intended to better document existing practice.

The amendments also revise the governance process where a scenario or portfolio in the standard set of stress scenarios is no longer applicable, or is superseded by new scenarios or portfolios, and the Clearing Risk Department wishes to retire or modify the outdated scenario or portfolio. In that case, the Clearing Risk Department would conduct an analysis to determine whether a change is significant, which would be reviewed by the Risk Oversight Department (“ROD”). The Board, or its delegated committee, would approve the significant decommissioning of scenarios, while

the Model Oversight Committee (“MOC”) would approve the decommissioning of scenarios (if not significant) or recommend the decommissioning of scenarios to the Board if deemed significant. The amendment is intended largely to formalize current practice, and also reflect the role of the MOC under the Clearing House’s Model Risk Governance Framework (the “MRGF”). The existing description of the steps that the Clearing Risk Department would take in such a scenario (involving approval by the relevant risk committee) would be deleted. The amendments would also clarify that if the Clearing Risk Department wishes to add new scenarios or portfolios, the MOC must approve of the addition, but the Board’s approval is not required. This is a change from the current procedure, under which it is sufficient to simply inform the CDS Risk Committee.

Further, the amendments would also state explicitly that in stress testing and sensitivity testing, under the multiple Clearing Member default scenario, conditional uncollateralized loss-give-defaults (“LGDs”) resulting from Clearing Member single-name positions would also be explicitly incorporated. This reflects current practice.

#### Various Changes

Various defined terms would be updated throughout the document. The CDS Product Risk Committee would be referred to as the CDS PRC instead of the CDS RC. Members or Clearing Members would be referred to as CMs. Throughout the document, references to Initial Margin would be updated to IM and references to Guaranty Fund would be updated to GF.

#### Changes to Predefined Scenarios; New COVID-19 Scenarios

The introductory description of the predefined scenarios would be amended to clarify that the scenarios reflect a stress period of risk from 1 to 7 days (referred to in the policy as “N”-day scenarios), taking into account the 5-day margin period of risk used in the existing margin methodology for house accounts and the 7-day margin period of risk used in the existing margin methodology for client accounts. The description of the magnitude of the base “FX Stress Scenario” would be amended to state that it reflects the greatest relevant N-day stress period (instead of five days).

Overall, the changes to the stress testing scenarios, other than the addition of the new COVID-19 scenarios, are intended to more thoroughly describe the stress test

scenarios. The changes (including the addition of the COVID-19 scenarios) are not expected to result in any changes in margin levels or other financial impact on the Clearing House or Clearing Members.

#### Extreme but Plausible Market Scenarios

The amendments would update the description of the extreme but plausible market scenarios. The description of the 2008/2009 credit crisis scenario would be updated to state that the widening/tightening credit crisis spread scenarios are based on the greatest observed N-day (instead of five-day) relative spread increases/decreases expressed as percentages. The amendments would also clarify that the determination of the exact stress period is defined by the greatest observed spreads change of the Most Actively Traded Instruments ("MATI") for each relevant sub-portfolio. The stress spread changes, defined for each Index, corporate and sovereign risk factor ("RF"), would be extracted from the market history for the MATI of the considered RF.

Amendments would also clarify that the other three historically observed stress test scenarios from the 2008/2009 period would be based specifically around the period surrounding Lehman Brothers' default to capture the large market moves of that period. These amendments are intended to provide a more thorough description of these existing stress testing scenarios.

The description of the Western European credit crisis scenarios would similarly be clarified to state explicitly that the scenarios replicate the stress market moves resulting from the concerns around the debt sustainability of several Eurozone countries. Widening/Tightening Western European Credit Crisis Spread Scenarios would be based on the greatest observed N-day (instead of five-day) relative spread increases/decreases (which would no longer be restricted to the most actively traded instruments). Amendments would also clarify that the determination of the exact stress period would be defined by the greatest observed spreads change of the MATI for each sub-portfolio. The other three historically observed stress test scenarios would be based specifically around the second quarter of 2010 to capture the large market moves of that period. The spread shocks would be expressed in percentage for each RF. These amendments are intended to provide a more thorough description of these existing stress testing scenarios.

The description of the Lehman Brothers Default Price Change Scenario would be expanded. The amendments

would state that the scenario magnitudes are defined for each RF according to its sector classification and time to maturity of the considered instrument. The corresponding stress test Opposite LB Default Price Change Scenarios would be derived from the Lehman Brothers scenarios by means of multiplying the scenario result by a negative factor to reflect the reduced magnitudes of the observed price increases during the considered period. These amendments are intended to provide a more thorough description of these existing stress testing scenarios.

#### New COVID-19 Based Scenarios

Given that moves in both spreads and prices were, generally, higher than other observed extreme but plausible stress test scenarios during the COVID-19 pandemic, ICE Clear Europe is proposing to add the following additional COVID-19 pandemic fear scenarios based on stress market moves experienced between February and April 2020:

- The COVID-19 Widening/Tightening Spread Scenarios, which would be based on the greatest observed N-day relative spread increases/decreases during the period. The determination of the exact stress period would be defined by the greatest observed N-day spread changes of the MATI for each sub-portfolio; and
- The COVID-19 Price Decrease Scenario would be defined in price space to maintain the stress severity during periods of low spread levels and high prices, when the IM requirements are expected to be lower. The scenario would be based on the greatest observed N-day relative price decreases during the aforementioned period. The determination of the exact stress period would be defined by the greatest observed N-day spread changes of the MATI for each sub-portfolio. A corresponding stress test COVID-19 Price Increase Scenario would be derived from the price decrease scenario by applying factors for Indices and SNs to reflect the reduced magnitudes of the observed price increases during the considered period.

#### Discordant Scenarios

The scope of discordant spread scenarios (for corporates and sovereigns) would be clarified. Specifically, the description of the corporate discordance spread scenarios would reflect that such scenarios are based specifically on discordant moves along the major European and North American 5Y on-the-run (OTR) indices. The amendments would also state that the corporate SNs and indices discordant spread scenarios,

which reflect realizations when certain indices or sub-indices for the EU region and certain U.S. OTR indices exhibited the greatest combined discordant change, would be created and applied to SNs and Indices. The amendments would further update references to indices used in stress scenarios and state that other stress scenarios would be based on discordant spread realizations across European Indices. The amendments would also note that other stress scenarios would reflect discordant spreads realizations among geographical regions. These amendments are intended to provide a more thorough description of existing stress testing scenarios.

#### Hypothetical Scenarios

With respect to hypothetical scenarios, greater detail would be added to clarify that the curve inverting spread scenario is based on the largest widening shock among the 2008/2009 Credit Crisis Widening and the Western European Credit Crisis Widening for each RF. Similarly, the curve steepening spread scenario is based on the largest tightening shock among the 2008/2009 Credit Crisis Tightening and Western European Credit Crisis Tightening scenarios.

New sectors and countries discordant scenarios would also be added. These scenarios would be designed to reproduce discordant moves across sectors and entities of different countries, noting that the large price moves in the oil benchmark products (especially WTI negative prices) in the first half of 2020 created asymmetric shocks to the energy and financials sectors compared to other sectors, which would be reflected in the Energy vs Other Sectors Discordant scenario. The five-year spread shocks would be estimated at sector level, and the derivation of the shocks for the other tenors would be based on the tenor-specific inverting and steepening factors. The sector-specific shocks would then be applied to all RFs within the sector. The opposite stress scenario would also be considered for completeness. The spread shocks estimated for the clearable Western European Sovereigns would be applied to the European corporate SNs for each country. The opposite stress scenario would also be considered for completeness.

Another hypothetical scenario, the forward-looking credit events scenarios, would be updated to clarify that the Clearing Member reference entity that would be considered would be different from the Clearing Member whose portfolio is subject to the stress test.

They would also add that the reference entity is assumed to enter in a state of default and thus create Loss Given Default (“LGD”) and that a reference entity is selected that creates the largest LGD exposure, rather than the greatest one-year EOD spread level.

#### Extreme Market Scenarios

The amendments would clarify that extreme steepening and extreme inverting scenarios would be created from crises steepening and crises inverting scenarios by doubling the shocks for inverting scenarios and applying a factor to steepening scenarios. The amendments would also incorporate the new COVID–19 historical scenarios into the determination of extreme scenarios, similar to the calculation of extreme scenarios based on the LB default scenario.

With respect to the guaranty fund (“GF”) scenarios, greater specificity would be provided to clarify that the stress test scenarios would be designed to account for the occurrence of credit events for two Clearing Member risk factor groups (“RFGs”) and three non-Clearing Member RFGs. The amendments would also clarify that the GF scenario considers an even more extreme case in which five RFGs undergo credit events (changing a reference from single names to the more accurate RFG). The chart setting out the quantile ratios for the student t distributions with different shape parameters would be removed as unnecessary.

The GF adequacy analysis would be amended to state that as the number of defaults of reference entities is one of the major risks in the CDS clearing service, the Clearing Risk Department considers complementary extreme scenarios where a combination of up to five RFGs for up to five Clearing Members would be assumed to default before simulating spreads widening and tightening on the non-defaulting entities in order to fully deplete the GF. The amendments would explain that the scenario aims at providing estimates of the level of protection achieved through initial margin (“IM”) and GF in relation to multiple defaults. This amendment is intended to clarify the stress-testing description but does not reflect a change in current stress testing practice.

#### Portfolio Selection

The description of the process for determination of sample portfolios for stress testing would be updated to reflect that ICE Clear Europe would derive the portfolio from the currently cleared portfolios by considering only

positions in index RFs and sectors that exhibit a high degree of association with the considered Clearing Member, in particular indices, sovereigns and financials RFs (rather than considering exactly the opposite positions from the currently cleared portfolio). The constructed sub-portfolios would be subject to the stress test analysis with the standard set of stress test scenarios. The aim of the stress analysis with the sample portfolios would be to provide estimates to the potential exposure of Clearing Members to RFs generating general wrong way risk (“WWR”). The current reference to special strategy sample portfolios would be deleted, and a new provision would address application of stress testing scenarios to expected future portfolios upon the launch of new services and RFs. The stress test analysis would be presented and reviewed by the CDS Product Risk Committee prior to launch of the new RFs.

#### Interpretation and Review of Stress-Testing Results

The interpretation and review of the stress-testing results section would be amended to provide that enhancements to stress scenarios would be discussed and approved based on the governance outlined in the MRGF. The amendments would also clarify that the two greatest affiliate groups’ (“Cover-2”) uncollateralized stress loss associated with scenarios characterized as extreme but plausible market scenarios should be covered by funded default resources (excluding potential assessments). If Cover-2 protection under these scenarios is not achieved, additional funds could be required to cover the shortfall and enhancements to the current risk methodology would be considered. The amendments would further provide that the Board and its delegated committees (instead of the CDS Risk Committee and Board Risk Committee) would be provided with information as to the stress test results as necessary or appropriate to perform their duties. The amendments are intended to allow the Board the flexibility to determine the appropriate committees for review of stress testing.

Certain outdated statements would be removed, including matters relating to governance that are addressed in the MRGF as well as outdated references to certain examples or specific committees. As discussed in the methodology section above, any related deficiency analysis and review would be undertaken by the MOC instead of the Executive Risk Committee, in accordance with the procedures of the MRGF. The stress testing report would

be presented to the CDS Product Risk Committee instead of the CDS Risk Committee during scheduled meetings (instead of scheduled monthly meetings).

The amendments would specifically remove the following statements:

- The statement as to the stress scenarios that lead to model review include;
- the statement that the hypothetical losses generated in response to stress scenarios are compared to the available margins on deposit and Guaranty Fund contributions and if applicable, the ICE Clear Europe contribution to the risk waterfall and the funds available through the one-time limited assessment from each Clearing Member;
- the statement that ICE Clear Europe is responsible for identifying in which zone a particular stress test result falls; and
- statements as to certain functions of the Clearing Risk Department, Clearing Risk senior management, ERC, CDS RC, the BRC and the Board, which have been replaced by the role of the MOC and the other revised governance arrangements discussed above.

#### Policy Governance and Reporting

The policy governance and reporting section would be amended to remove the requirement that the policy be reviewed annually by the CDS Risk Committee and only would require review by the Board Risk Committee. Material changes to the policy would be discussed by the MOC (instead of the ERC) and approved by the Board on the advice of the CDS Product Risk Committee and the Board Risk Committee prior to implementation. These amendments are intended to be more consistent with other Clearing House governance processes and formalize existing arrangements to ensure that appropriate bodies are engaged in policy governance.

#### Appendix

The FX stress test scenario amendments would reflect the greatest N-day relative depreciation (instead of five-day) and would remove the specific dates. This is intended to be a conforming change consistent with the other amendments to use an N-day period described above.

#### CDS Risk Policy

The amendments to this policy would describe more fully the existing use of the Clearing House’s Monte Carlo (“MC”) simulation approach in the context of establishing initial margin and GF requirements. The amendments would also generally clarify the use and

source of intraday prices and make other drafting improvements and clarifications, including through revising certain descriptions and providing certain defined terms. The amendments simplify certain cross references to the CDS Risk Model Description throughout the policy by removing unnecessary section references (to facilitate keeping the CDS Risk Policy up to date). In general, the amendments are intended to provide a clearer explanation of the Clearing House's methodology for IM and GF requirements and are not intended to materially change the methodology or to change the levels of IM and GF requirements.

With respect to IM, the amendments would clarify the description of the IM methodology by stating that the risk protection measure is based on using a combined approach featuring a stress-based spread response Value-at-Risk ("VaR") measure and a Monte Carlo ("MC") simulation spread response VaR measure. They would also add that model performance would be monitored through stress testing and sensitivity analyses. The amendments are intended to more clearly reflect existing practices, and would not change the IM methodology.

With respect to the spread response requirements description, the amendments would provide greater clarity that the spread response risk requirement that captures credit spread fluctuations is a stress-based spread response that computes Profit/Loss ("P/L") distributions from a set of simulated hypothetical (forward looking) credit spreads scenarios.

The description of the stress-based spread response scenarios would be modified by rewording the introduction to improve readability and to clarify the applicable benchmark tenors estimated for all the Risk Sub-factors, replacing certain outdated references to tenors. The amendments are intended to reflect and more clearly describe current practices.

A new section would be added to describe in more detail the Monte Carlo simulation approach currently used by the Clearing House. The amendments would provide that in this approach, ICE Clear Europe generates spread scenarios by means of student-t copulas to connect the univariate distributions that describe spread fluctuations. The student-t copulas reflect historical estimates of Kendall  $\tau$  correlation coefficients to simulate spread log-returns.

The simulated copula scenarios are used to arrive at hypothetical spread levels by means of estimated univariate

spread log-return distributions. Each instrument would be repriced at the simulated spread levels to generate a scenario instrument P/L based on post-index decomposition positions. For each scenario, instrument P/Ls would be aggregated according to pre-defined RFs and sub-portfolio position sets in order to obtain RF and sub-portfolio P/Ls.

These distributions would be used to estimate the RF and sub-portfolio 99.5% VaR measures at a chosen risk horizon. The portfolio level integrated Spread Response would be estimated as a weighted sum of RF and sub-portfolio 99.5% VaR measures.

The description of the anti-procyclicality considerations would be updated to provide that the stress price changes would be derived from the price-based extreme but plausible stress test scenarios under the revised CDS Stress Testing Policy, as described above, instead of only from the market behavior during and after the Lehman Brothers default period.

Throughout the policy, references to the risk department would also be updated to the Clearing Risk Department.

The amendments also provide that the Clearing Risk Department may recommend margin methodology changes based on the governance procedures outlined in the MRGF, consistent with the requirements of that framework. The amendments would also note that in the event that ICE Clear Europe is accepting sizable positions through the weekly back-loading process in the context of margin calls, it will pre-collect IM and mark-to-market changes, instead of just IM.

With respect to mark-to-market margin ("MTMM"), the description regarding the determination of cash owing, the payment of MTMM, the timing of margin calculations and the making of MTMM calls would be removed as unnecessary operational detail. These matters are also generally covered in the CDS Risk Policy and Finance Procedures. Similarly, the discussion of the requirements and rights of a Clearing Member upon a change in MTMM balance (*i.e.* to pay or be credited cash) would be deleted as unnecessary detail.

With respect to intra-day monitoring, the amendments would provide that ICE Clear Europe would ensure the quality of the intraday prices by monitoring and comparing the quotes received with the intraday prices of the transactions cleared at ICE CDS clearing houses. ICE Clear Europe could also compare intraday prices with those of another third-party provider. The comparison

process would be carried out before issuing intraday margin calls. The description of the intraday risk limit calculation would be updated such that it would be based on 40% of the total IM requirements, with a minimum amount corresponding to the minimum GF contribution and would be capped at a monetary amount reviewed in conjunction with the ICE Clear Europe senior management and the CDS Product Risk Committee. The precise monetary amount would be removed from the policy to give the Clearing House flexibility if it determined it was appropriate to review and reconsider this amount in the future in conjunction with senior management and the BRC. There is currently no plan to change the existing EUR 100 million cap in practice. The procedure for intra-day margin calls would be further clarified by removing a statement that where there has been a 50% erosion of the Intraday Risk Limit, the Risk Department will investigate the matter. In ICE Clear Europe's view, a separate step at the 50% erosion level is unnecessary, as ICE Clear Europe will not take any particular action at that level. Once the erosion exceeds 50%, the Clearing Risk Department is required to inform the relevant CDS Clearing Member that it may be subject to an intraday margin call (and in so doing the Clearing Risk Department will make any necessary investigations of the matter).

The statement that the Risk Management Department will notify the ICE Clear Europe Treasury Department of the "special" margin call would be removed as an operational detail not necessary for the policy. Generally, the Clearing Risk Department sets the margin level and would communicate it to other departments in the ordinary course, as it does for any change of margin level.

With respect to the GF, the amendments would update the drafting of certain language (including the reference to the "Cover 2" requirement) to remove certain unnecessary detail. With respect to related anti-procyclicality considerations, the amendments would refer to the extreme but plausible price-based stress test scenarios described in the revised CDS Clearing Stress Testing Policy, as discussed above. Amendments would also provide that the GF allocation process is performed by the Clearing Risk Department on a weekly basis rather than every Thursday and based on the previous business day's close of business positions rather than Wednesday's close of business positions. The amendments would also

clarify that the requirement that a portion of the GF be in USD is intended to accommodate all USD-denominated CDS contracts, not merely sovereign CDS contracts . . . The current numerical example of GF calls/ collection would be removed as unnecessary.

With respect to back-testing, the amendments provide if the model calibration consistently demonstrates exceptions outside of the coverage level, the Clearing Risk Department would review the models and recommend revisions following the governance procedures outlined in the MRGF.

Pursuant to the amendments, the stress-testing section would add that the historical data would account for COVID-19 outbreak fear, consistent with the changes to the CDS Stress Testing Policy discussed above.

The amendments would update certain terms throughout the document as follows: ICE Clear Europe would be referred to as ICEU; Member, member or Clearing Member would generally be updated to CM; Risk Model Description would be updated to CDS Risk Model Description; CDS Risk Committee would be updated to CDS Product Risk Committee; Risk Department, Risk Management Department or Clearing Risk department would be updated to Clearing Risk Department; General Wrong Way Risk would be referred to as "GWWR"; Guaranty Fund would be updated to GF, Specific Wrong Way Risk would be abbreviated as SWWR; Model Oversight Committee would be given the acronym "MOC"; the Model Risk Governance Framework would be given the acronym "MRGF"; Initial Margin would be updated to IM; Dollar would be updated to USD; CDS Back Testing Framework would be updated to Policy; a Risk Oversight Committee reference would be updated to ROC; CDS Risk Product Committee and CDS RC would be respectively updated to CDS Product Risk Committee and CDS PRC; and Risk Committee would be updated to CDS PRC. Certain other typographical corrections would be made.

#### CDS Risk Model Description

This document was amended in May 2019 (the "2019 Amendments") and additional amendments are currently being proposed (the "Current Amendments"). As discussed below, the Current Amendments would:

- Clarify the treatment of volatility estimates for the Recovery Rate Sensitivity Requirement ("RRSR"), risk factor calibration and the raw data cleansing process; and

- add detail regarding the use of ICE Clear Europe cleared volume in the Concentration Charge threshold review.

- As discussed below, the 2019 Amendments:

- enhanced the calculation of the WWR threshold;
- clarified the parameter estimation of the recovery rate sensitivity requirement;
- clarified the discussion around model testing;
- added a section to explicitly refer to the assumption around the use of the same time series for IM and GF distributions in the CDS Risk Model; and provided that the interest rate sensitivity requirement of the model reflects a time horizon of five days for house accounts and seven days for client accounts.

With the exception of the changes to the calculation of the WWR threshold, the amendments are in the nature of clarification and improving descriptions of the Clearing House's existing methodology, and do not constitute a change in the methodology. The enhancement of the calculation of the WWR threshold, as discussed below, while a change from prior practice, is expected to have an immaterial effect on margin levels.

#### The 2019 Amendments

The following is a description in further detail of the 2019 Amendments to the CDS Risk Model.

#### Model Design and Development

The amendments updated the description of the interest rate sensitivity requirement component of the IM model to add that the changes captured in the discount default-free terms structure used for pricing the cleared instruments are over a certain time horizon (five days for house accounts and seven days for client accounts). This amendment documented existing practice.

#### Initial Margin Methodology

With respect to IM, the amendments updated the loss given default risk analysis to specify initial values of certain parameters and to note that certain parameters are reviewed by the Risk Working Group on at least a monthly basis.

With respect to the haircut applied as part of the multi-currency portfolio treatment methodology, the amendments clarified that in order to provide consistency and uniformity in the parameters applied to the CDS risk model, ICE Clear Europe adopted the same (more conservative) haircut in line with ICE Clear Credit LLC. This

amendment did not change existing practice and was intended to strengthen the IM methodology by documenting existing practice.

Similarly, with respect to the foreign exchange haircut applied to periodic adjustments to the GF, the amendments also clarified that in order to provide consistency and uniformity in the parameters applied to the CDS risk model, ICE Clear Europe adopted the same (more conservative) haircut in line with ICE Clear Credit LLC. This amendment also did not change existing practice and was intended to strengthen the IM methodology by documenting existing practice.

#### Monte Carlo Implementation

Amendments were made to clarify and simplify the overall description of the Monte Carlo implementation. The amendments were not intended to reflect a change from current practice, but rather provide a clearer description of the existing implementation. Specifically, ICE Clear Europe believes that the revised description provides a more practical, and less theoretical, explanation of the Monte Carlo implementation that will facilitate replication and validation of the implementation by third parties.

Among other clarifications, the revised description states explicitly that the final spread response requirement would be the most conservative requirement in the specified stress-based spread response equation, which is consistent with current practice. Certain subsections of the Monte Carlo description, including those relating to the discussion of matrix decomposition, were deleted as unnecessary in light of the description of the implemented model. The amendments updated the copula simulation description to provide further detail as to the determination and use of the linear correlation matrix and construction of student-t random variables and vectors for the production of relevant scenarios. The existing description of the conditional block matrix simulation framework and full matrix simulation framework were revised to provide a more simplified description of the two-step conditional simulation approach that is currently used by the Clearing House. A section describing copula parameter estimation for purposes of multivariate distribution was added while the description of simulation for standardized spread log returns was removed as unnecessary. The model parameters section was removed (with relevant parameters being addressed in the Parameters Procedures as discussed below). Overall, these changes were

intended to more clearly reflect the current model, and would not represent a change in methodology.

The Risk Measures section was amended to reflect existing practice that each cleared portfolio would be initially split into sub-portfolios based on common features in order to obtain risk estimates reflective of the market behavior and default management practices. The definitions of the sub-portfolios and their respective risk horizons would be periodically reviewed by the ICE Clear Europe Risk Management department and updated upon consultation with the Product Risk Committee.

More detail was provided with respect to the use of simulated P/L scenarios, combined with the post-index-decomposition positions related to a given RF, to generate a currency-specific RF P/L vector. Each risk factor will be attributed to only one sub portfolio and all instruments related to a given risk factor would be denominated in the same currency. The multi-currency risk aggregation approach will be applied to risk factors within the European Corporate and U.S. Corporate sub-portfolios denominated in EUR and USD currencies, respectively. A diagram would be added to demonstrate a bivariate simulation aspect of the risk aggregation approach. This change was intended to document existing practices.

The Monte Carlo Engine Setups subsection and Conclusion subsection to the Monte Carlo Implementation section were deleted for improved clarity as content relevant to the implementation is addressed more clearly in other sections, and the prior description of the system or engine does not, in ICE Clear Europe's view, add useful information beyond the other aspects of model description.

Overall, these amendments generally did not represent a change in current operation of the MC component of the risk model.

#### Time Series for IM and GF Distribution

A section explaining the existing use of the same time series for IM and GF distribution was added. The approach is designed to be conservative and ensure that the portfolio loss at 99.75% quantile (used for GF determination) would be always greater than 99.5% quantile loss (used for IM determination). The approach also avoids unnecessary operational complexity. The validity of the assumption is monitored through the stress test impact analysis. The amendments were intended to document existing practices and

therefore were not expected to have a material impact.

#### Current Amendments

The following is a description in further detail of the Current Amendments to the CDS Risk Model.

#### Initial Margin Methodology

The amendments clarify the source of certain market risk transfer activity data used in the concentration charge threshold parameterization. The amendments also update the loss threshold calculation in the determination of specific WWR and general WWR (to be based on price minus recovery rate as opposed to one minus recovery rate). Although the change makes the WWR calculation more precise, the monetary impact on margin requirements is expected to be immaterial (and near zero). The amendments would generally strengthen the precision of the Initial Margin methodology based upon independent validation findings.

The amendments would provide additional detail with respect to the volatility floor value used in the IM methodology. The amended description would provide that the volatility floor is estimated based on the average overlapping five-day absolute change of recovery rates (RRs) for a set of defaulted names. The defaulted names have a long time series of observed RRs (*i.e.* more than a year) and comprise a stress period of 2009–2012. The Clearing Risk Department would be able to review the estimated parameters in case of the availability of sufficient long time series of observed RRs. This is consistent with existing practice and intended to strengthen the IM methodology by more clearly documenting the practice.

The amendments would also clarify that with respect to the concentration charge threshold, the market risk transfer activity data obtained from the Depository Trust & Clearing Corporation specifically contains both bilateral positions and ICE cleared positions. This is consistent with existing practice and intended to strengthen the IM methodology by more clearly documenting the practice.

#### Anti-Procyclicality Measures

The amendments would modify the approach to anti-procyclicality of spread response requirements to be calibrated based on historically observed extreme but plausible stress test scenarios in price space defined in the revised CDS Stress Testing Policy, as discussed above, which include various stress scenarios including the Lehman

Brothers' default and COVID-19 outbreak. This broadens the current anti-procyclicality approach, which is based specifically on the Lehman Brothers' default scenario. The amendments are intended to enhance the anti-procyclicality approach to address multiple price-based scenarios as the Lehman Brothers' default scenario alone may not be sufficient. In particular, the amendments are intended to incorporate the Covid-19 stress scenario, in light of experience during the pandemic. Amendments also reflect the 20% portfolio gross margin floor required under relevant European regulation.<sup>3</sup>

#### Monte Carlo Implementation

The amendments would clarify that in the MC implementation, distributions are based on simulated constant maturity CDS spread scenarios, and that instrument profits or losses are calculated by re-pricing instruments at their coupons as well as their implied recovery rates.

This change is intended to document existing practices.

#### Data

The amendments would clarify certain data fallbacks used by the Clearing House when the normal established EOD spread data is not available. Consistent with current practice, the amendments would provide that if CDS spreads are not available using the usual data sources, then the ICE Clear Europe Clearing Risk Department would use proxy log-returns of existing clearable risk sub-factors from a similar or correlated industry/sector. In case ICE Clear Europe rolls out risk factors already cleared at ICE Clear Credit, the existing CDS spreads time series would be used directly after reviewing the back-test results. The amendments would also clarify that certain CDS spread time series are available by risk sub-factor for the relevant benchmark tenors.

The amendments would provide additional detail as to the collection, analysis and back testing of relevant data for new risk sub-factors. Pursuant to the amendments, if new risk subfactors are to be rolled out, ICE Clear Europe would collect prices from the Clearing Members on the benchmark tenors as per normal EOD price discovery process before making the contracts clearing eligible. The Clearing Risk department would be responsible for reviewing the fixed maturity time

<sup>3</sup> European Market Infrastructure Regulation (EMIR) Article 27.

series data on the benchmark tenors until the first day of the price collection.

The backfilling of missing data would be performed in log-return space derived from the available EOD fixed-maturity spread levels. In general, the 5Y tenor time series would always be available. If the original log-returns time series presents incomplete data for less actively traded tenors for only a few days, then interpolation/extrapolation techniques would be applied to derive the missing data.

Once fixed maturity time series are complete, ICE Clear Europe Clearing Risk Department would perform back-tests on hypothetical trading strategies and stress tests on hypothetical portfolios (*i.e.*, by injecting bilateral positions extracted from DTCC on the sub-risk factor to roll out into cleared portfolios of Clearing Members) in order to further ensure that time series for the new risk sub-factors are appropriate to calibrate the risk models. The results of the analyses would be presented to the CDS Product Risk Committee.

Fixed maturity time series would be transformed to constant maturity time series (“CMTS”) to eliminate the impact of semi-annual rolls. The amendments provide further detail as to the manner in which CMTS series are determined and used for index and single-name risk factors. These amendments are intended to provide further clarity to the process as described in the Risk Model Description, but not significantly change current Clearing House practice, consistent with the existing Risk Model Description.

The amendments would also provide that back-testing results would be available to assess the quality of time series as well as the performance of the calibrated models (instead of just the latter).

Overall, these amendments relating to data are intended to better document existing practices and therefore are not expected to change Clearing House operation.

#### Testing

The Testing section would be amended to provide that tests would be broadly grouped into the following categories: Stress tests; back-tests; sensitivity tests; anti-procyclicality tests; and benchmarking. The amendments are generally intended to reflect, and be consistent with the ICE Clear Europe CDS Back-Testing Policy, CDS Clearing Stress-Testing Policy, CDS Parameters Review Procedures and Procyclicality Framework, and further details of testing are provided in those documents. With respect to benchmarking, as currently described in

the Risk Management Model Description, ICE Clear Europe would benchmark the spread response model against the Model Carlo simulation approach. Certain existing details regarding back testing of the core model components, comparing the calibrated recovery rates used in the jump to default requirement and actual market data, assessing whether the assumed stress scenario adopted to size the GF is fit for purpose, testing the liquidity component of the model, assessing measures to mitigate the procyclicality of the margins and testing margin sensitivity would be removed as that detail is contained in the ICE Clear Europe Back-Testing Policy, CDS Clearing Stress-Testing Policy, CDS Parameters Review Procedures and Procyclicality Framework. The amendments do not represent a substantive change in ICE Clear Europe’s approach to testing but are intended to clarify the Risk Model Description and to enhance it by more clearly stating relevant assumptions.

#### Other Changes Throughout the Documents

Minor typographical and drafting updates are also proposed throughout the Documents, including updating references to Clearing Participants (or CPs) to Clearing Members (or CMs) to be consistent with the Rules, references to Trading Advisory Committee (or TAC) or Trading Advisory Group (or TAG) to reflect that the TAG is not technically a Clearing House committee, and Risk Committee to Product Risk Committee or CDS Product Risk Committee, as appropriate, to reflect the correct name of that existing committee.

#### CDS Parameters Review Procedures

ICE Clear Europe proposes to formalize certain existing practices and procedures for calibrating and reviewing the core parameters and underlying assumptions of its Risk Management (“RM”) model that are not explicitly described in its CDS Risk Model Description and CDS Risk Policy into a new Parameters Procedures document. The Parameters Procedures thus generally are not expected to change existing Clearing House practice.

#### Parameters Setting and Calibration

ICE Clear Europe’s Parameters Procedures would discuss the process of setting and reviewing the model core parameters and their underlying assumptions. The model requirements include Spread Response (“SR”) requirements, Jump-To-Default (“JTD”) requirements, basis risk requirements, interest rate (“IR”) sensitivity

requirements, liquidity charge requirements, and concentration charge requirements.

#### Spread Response

The Parameters Procedures would describe the parameters (and related process for reviewing and updating those parameters) that are associated with the Spread Response components of the CDS risk model, including as to applicability (index or single name or both), level of granularity (*e.g.*, risk factor), update frequency and the source of the parameter estimations.

Time series associated with constant maturity benchmark tenors would be analysed and the distributions that describe the fluctuations of the benchmark tenors calibrated. The statistical parameters update would be performed at least on a monthly basis and controlled and managed through ICE Clear Europe internal systems.

The monitoring of the stress period selected for the scale parameter would be performed on a monthly basis in accordance with the CDS Risk Model Description. Proposed changes to the stress period would be reviewed by the Clearing House’s Clearing Risk Department with its Risk Working Group and MOC.

#### Jump-to-Default Requirement Parameters

The parameters impacting the JTD requirement are categorized as either LGD or WWR parameters. The Parameters Procedures would explain how, in order to measure credit event losses, the Clearing House’s Risk Department constructs JTD scenarios in terms of anticipated recovery rate (“RR”) levels (“RR scenarios”). The Parameters Procedures would describe RR scenarios and estimations for corporate SNs, sectors, and sovereign reference entities, and notes foreign exchange rate risk considerations with respect to sovereign reference entities. The Parameters Procedures would require ICE Clear Europe to estimate and review the LGD parameters at least monthly and describes the associated governance process, noting the reviewers and any prerequisites to the implementation of parameter updates.

The Parameters Procedures would also detail the process of setting and reviewing the WWR parameters. The Parameters Procedures would contain information regarding the parameters that would be used to quantify WWR dependence and to compute WWR JTD requirements.

### Basis Risk Requirements

The Parameters Procedures would discuss how the Clearing House's Risk Department maintains and monitors hypothetical portfolios representing basis trades between cleared index and single-name instruments. Basis risk is calibrated by comparing the P/Ls of such portfolios to estimated IM requirements, excluding any concentration charges.

### Interest Rate Sensitivity Requirements

The Parameters Procedures would contain information on the estimation and the review of the parameters that serve as inputs to the IR sensitivity component of the risk model. The IR sensitivity component accounts for the risk associated with changes in the default-free discount term structure used to price CDS instruments. With respect to the IR sensitivity requirement parameters, the Parameters Procedures would specify how the risk department estimates the up and down parallel shifts for the US Dollar and Euro default-free discount term structures. The Parameters Procedures would direct ICE Clear Europe to estimate and review the IR sensitivity requirement parameters at least monthly.

### Liquidity Charge

The Parameters Procedures would explain the process of setting and reviewing parameters for the liquidity charge component of the risk model. With respect to index instruments, the Parameters Procedures would address the determination of bid/offer parameters from the default spread width matrix and other assumptions about liquidation cost of an index portfolio, and address procedures for review of that matrix. The Parameters Procedures would also describe the parameters used in determining bid/offer widths for single names, including the use of price-based floor levels and spread-based volatility measures. The Parameters Procedures require the Clearing House to review the liquidity charge parameters at least monthly.

### Concentration Charge

The Parameters Procedures would discuss the estimation and the review of the concentration charge parameters, including detailing how the Risk Department establishes series-specific or SN-specific concentration charge threshold levels for each index or SN Risk.

Factor ("RF"), and how the Risk Department estimates concentration charge growth rates that determine how quickly concentration charges increase with position size. The Parameters

Procedures direct the Clearing House to estimate and review the concentration charge parameters at least monthly.

### Sensitivity Analysis

The Parameters Procedures would detail the sensitivity analyses that the Clearing House performs to explore the sensitivity of the RM system's outputs to certain model core parameters that are calibrated on an ad-hoc basis and to alternative data analyses and parameter estimation techniques. The Parameters Procedures also provide for summary reports of relevant analyses to be provided to the Risk Oversight Department or other relevant groups.

### Portfolio Benefits Parameters

The portfolio benefits parameters control portfolio benefits during the computation of the SR with the stress based VaR approach. The Parameters Procedures would describe the methods for monitoring the benefits and performing sensitivity analysis of potential parameter changes that would reduce benefits.

### Dependence Structure Shifts

The Parameters Procedures also address sensitivity analysis of portfolio benefits implemented during the computation of the SR under the MC simulation approach, based on different dependence structures. The approach is intended to guide the Risk Department in situations where back-testing results indicate excessive portfolio benefits.

### SWWR Threshold Shift

The Parameters Procedures would address sensitivity analysis with respect to model parameters that control the permitted level of index derived SWWR, to provide guidance to the Risk Department in situations when a decision to fully collateralize SWWR is made upon a consultation with the Model Oversight Committee and the Product Risk Committee.

### GWWR Correlation Shifts

Sensitivity analysis also considers GWWR arising from Clearing Members exposed to Western European Sovereigns when the Kendall tau rank-order correlation between the Member and the Sovereign entity is above a threshold. The sensitivity analysis would be to provide guidance to the risk departments in situations when an increase of the dependence among members and sovereigns might lead to changes in risk requirements.

### MAD Level Shifts

The Parameters Procedures would describe sensitivity analysis on MAD

levels, which is performed by shifting all MAD estimates to their stress levels to provide information about the response of risk requirements to potential volatility shifts and to assess the viability of certain parameter-setting assumptions. This sensitivity analysis would be to provide guidance to the Risk Department about potential risk requirement changes in stress periods due to increase in volatility shifts.

### EWMA Sensitivity Analysis

The Parameters Procedures would address sensitivity analysis relating to the setting of the exponentially weighted moving average ("EWMA") decay rate ("EWMA factor"), which may affect the procyclicality of the model.

### Statutory Basis

ICE Clear Europe believes that the amendments to the Documents and the adoption of the Parameters Procedures are consistent with the requirements of Section 17A of the Act<sup>4</sup> and the regulations thereunder applicable to it. In particular, Section 17A(b)(3)(F) of the Act<sup>5</sup> 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.

The amendments to the Documents and the adoption of the Parameters Procedures are generally designed to enhance and clarify the descriptions of key ICE Clear Europe risk models and documentation used in determining CDS margin and GF requirements, particularly in the CDS Risk Policy, CDS Risk Model Description and CDS End-of-Day Pricing Policy. Although these changes are largely not intended to represent a change in Clearing House practices, they should enhance the clarity and ongoing monitoring and implementation of these policies. The amendments also make a number of changes to the CDS Stress Testing Policy, which are intended to add new stress scenarios relating to the COVID-19 pandemic, in light of experience in early 2020, and clarify more generally that certain extreme scenarios should not be limited to scenarios relating to the Lehman Brothers default. The amendments also adopt a new set of Parameters Procedures, which is

<sup>4</sup> 15 U.S.C. 78q-1.

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

intended to codify and formalize the Clearing House's approach to setting the key parameters used in the CDS risk model, conducting related sensitivity analyses of the impact of such parameters and reviewing such parameters on an ongoing basis. As such, the Parameters Procedures support ICE Clear Europe's ability to maintain sufficient margin requirements and enhance ICE Clear Europe's approach to identifying potential parameter changes that are appropriate to maintain the operation of the risk model and thereby ensure that the Clearing House continues to maintain sufficient financial resources to withstand defaults by Clearing Members. Therefore, the amendments to the Documents, and the adoption of the Parameters Procedures, will help ICE Clear Europe ensure that it maintains adequate financial resources to support its CDS operations, enhance the stability of the Clearing House and overall promote the prompt and accurate clearance and settlement of securities transactions and, derivative agreements, contracts, and transactions, the safeguarding of securities and funds in ICE Clear Europe's custody or control or for which ICE Clear Europe is responsible, and the public interest in the sound operation of clearing agencies. Accordingly, the amendments are consistent with the requirements of Section 17A(b)(3)(F).<sup>6</sup>

For similar reasons, the amendments and the Parameters Procedures also are consistent with relevant requirements of Rule 17Ad-22. Rule 17Ad-22(e)(3)(i)<sup>7</sup> requires clearing agencies to maintain a sound risk management framework that identifies, measures, monitors and manages the range of risks that it faces. The various amendments throughout the Documents as well as the new Parameters Procedures document are all intended to clarify the operation of ICE Clear Europe's risk management systems and provide for enhanced stress testing. They provide greater clarity with respect to various risk management tools, ensure that COVID-19 and other extreme but plausible stress scenarios are accounted for and ensure current governance practices are clearly set out, all of which facilitate ICE Clear Europe's compliance with Rule 17Ad-22(e)(3)(i).<sup>8</sup>

In addition, ICE Clear Europe believes that the adoption of the Parameters Procedures are consistent with the relevant requirements of Rule 17Ad-22(e)(4)(vi)(B),<sup>9</sup> which requires ICE

Clear Europe to identify, measure, monitor and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements, including by conducting a comprehensive analysis of underlying parameters and assumptions on at least a monthly basis. The Parameters Procedures would also provide a clear framework for ICE Clear Europe to estimate and review the model core parameter settings and perform and review sensitivity analyses related to certain parameter settings on at least a monthly basis. The amendments to the CDS Stress Testing Policy will, as discussed above, enhance the stress testing of the Clearing House by incorporating a wider range of extreme scenarios (including those reflecting recent market events) in stress testing, which are reviewed on at least a monthly basis. Other amendments would clarify how the Clearing Risk Department would address a scenario or portfolio in the standard set of stress scenarios no longer being applicable, or being superseded by new scenarios or portfolios, where the Clearing Risk Department wishes to retire or modify the outdated scenario or portfolio or add a new scenario. The amendments serve to promote the soundness of the Clearing House's risk management model and system and ensure that the Clearing House possesses the ability to manage the risks associated with discharging its responsibilities, consistent with the requirements of Rule 17Ad-22(e)(4)(vi)(B).<sup>10</sup>

Rules 17Ad-22(e)(2)(i) and (v)<sup>11</sup> requires that clearing agencies provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility. References to the roles of certain committees and departments with respect to reviews and approvals throughout the Documents have been updated to better reflect existing practice with respect to the roles of groups. Where appropriate, references to the MRGF, which sets out further governance details, have been added throughout the documents. The amendments provide additional clarity with respect to Clearing House governance and lines of responsibility consistent with Rules 17Ad-22(e)(2)(i) and (v).<sup>12</sup>

Rule 17Ad-22(e)(6)(iv)<sup>13</sup> requires that clearing agencies cover their credit exposures to participants by establishing a risk-based margin system that uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. Amendments to the CDS Model Risk Description would more clearly state the procedures for determining relevant prices should input data not be available from back-up sources, further strengthening ICE Clear Europe's strategies to ensure it has access to reliable sources of timely price data in compliance with this requirement. The amendments would also provide further detail regarding the treatment of data collected and the backfilling of missing data. The amendments to the CDS Risk Policy would also strengthen the quality of intraday prices through enhanced intraday monitoring through additional comparisons of intraday prices with other ICE CDS clearing houses and third-party providers. Together, the amendments strengthen ICE Clear Europe's compliance with Rule 17Ad-22(e)(6)(iv).<sup>14</sup>

Rules 17Ad-22(e)(6)(i) to (iii)<sup>15</sup> require that clearing agencies establish a risk-based margin system that (i) considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market; (ii) marks participant positions to market and collects margin, including variation margin or equivalent charges if relevant, at least daily and includes the authority and operational capacity to make intraday margin calls in defined circumstances; and (iii) calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. The proposed amendments would provide more detail regarding the IM methodology set out in the CDS Risk Policy, facilitating the maintenance of sufficient margin levels. The CDS Risk Policy amendments would also provide that in the event that ICE Clear Europe is accepting sizable positions through the weekly back-loading process in the context of margin calls, it will pre-collect IM and mark-to-market changes, instead of just IM, to further ensure sufficient margin collection. Amendments to the IM methodology in the CDS Risk Model Description would

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> 17 CFR 240.17 Ad-22(e)(3)(i).

<sup>8</sup> 17 CFR 240.17 Ad-22(e)(3)(i).

<sup>9</sup> 17 CFR 240.17Ad-22.

<sup>10</sup> 17 CFR 240.17Ad-22(e)(4)(vi)(B).

<sup>11</sup> 17 CFR 240.17 Ad-22(e)(2)(i) and (v).

<sup>12</sup> 17 CFR 240.17 Ad-22(e)(2)(i) and (v).

<sup>13</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>14</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>15</sup> 17 CFR 240.17Ad-22(e)(6)(i) to (iii).

also enhance various aspects of the related risk analysis and related calculations. Overall, these amendments strengthen ICE Clear Europe's margin system and compliance with Rules 17Ad-22(e)(6)(i) to (iii).<sup>16</sup>

*(B) Clearing Agency's Statement on Burden on Competition*

ICE Clear Europe does not believe the proposed rule changes would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purpose of the Act. The amendments to the Documents and the new Procedures apply to all CDS Contracts. In general, the amendments are intended to clarify the description of the CDS risk model, and not substantially change the practices of the Clearing House with respect to the calculation of CDS margin and GF requirements. As such, the amendments will apply to all CDS Clearing Members and are unlikely, in ICE Clear Europe's view, to materially affect the cost of clearing for CDS products or affect access to clearing for CDS products at ICE Clear Europe or the market for cleared services generally. Certain amendments to the CDS Stress Testing Framework would add new stress-testing scenarios in light of recent events, including COVID-19 related scenarios. To the extent such amendments may have any impact on margin levels, ICE Clear Europe believes such changes will be appropriate in furtherance of the risk management of the Clearing House in light of the market movements observed during the pandemic. Therefore, ICE Clear Europe does not believe the proposed rule changes impose 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 changes have not been solicited or received. ICE Clear Europe will notify the Commission of any written comments received by ICE Clear Europe with respect to the proposed rule changes.

**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 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 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](mailto:rule-comments@sec.gov). Please include File Number SR-ICEEU-2021-006 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-2021-006. 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 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 10:00 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-europe/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-2021-006 and should be submitted on or before March 29, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

**J. Matthew DeLesDernier,**  
*Assistant Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-91241; File No. SR-NASDAQ-2021-010]

**Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Enhance the End of Day Summary Message on Nasdaq Last Sale Plus**

March 2, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 17, 2021, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to enhance the End of Day ("EOD") summary message on Nasdaq Last Sale ("NLS") Plus by replacing the current high, low and closing price of a security based on its trading on the Nasdaq, Nasdaq BX and Nasdaq PSX exchanges with the high, low and closing price of a security published by the securities information processors ("SIPs"), and adding the opening price of a security as published by the SIPs to that message.

The text of the proposed rule change is available on the Exchange's website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

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

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

<sup>16</sup> 17 CFR 240.17Ad-22(e)(6)(i) to (iii).