



SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-72944; File No. SR-ICC-2014-08)

August 28, 2014

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Related to ICC's Authority to Use Guaranty Fund and House Initial Margin as an Internal Liquidity Resource

I. Introduction

On June 24, 2014, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2014-08 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on July 14, 2014.³ The Commission did not receive comments on the proposed rule change. For the reasons described below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

ICC has stated that the principal purpose of the proposed rule change is to formalize ICC's Liquidity Risk Management Framework, including its comprehensive liquidity monitoring program, and, through proposed changes to two sections of ICC's Rulebook, to clarify ICC's authority to use, and to provide details as to how ICC would use, Guaranty Fund and House Initial Margin as an internal liquidity resource.

ICC's proposed Liquidity Risk Management Framework includes a discussion of all resources available to ICC and the order in which ICC would use available liquidity resources, if

¹ 15 U.S.C. 78(s)(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-72556 (July 8, 2014), 79 FR 40796 (July 14, 2014) (SR-ICC-2014-08).

necessary, when managing one or more Clearing Participant defaults. The liquidity waterfall classifies available liquidity resources on any given day into four levels. Level One includes the House Initial Margin and Guaranty Fund cash deposits of the defaulting Clearing Participant. Level Two includes Guaranty Fund cash deposits of: (i) ICC; and (ii) non-defaulting Clearing Participants. Level Three includes House Initial Margin cash deposits of the non-defaulting Clearing Participants. Level Four includes ICC's committed credit facility to access additional cash, and contemplates the establishment of other committed facilities to convert U.S. Treasuries to USD cash.

In addition, the Liquidity Risk Management Framework describes: (i) the methodology used by ICC to estimate its minimum day-of-default available liquidity resources based on its liquidity risk management model; (ii) historical analysis based on back testing considerations; and (iii) forward-looking analysis based on stress testing. The Liquidity Risk Management Framework also provides for governance concerning ICC's liquidity testing, amending the liquidity program and the procedure for additional risk measures to be taken, as necessary, based upon testing results.

Proposed new Rule 402(j) addresses ICC's use of any Clearing Participant's House Initial Margin as a liquidity resource in connection with a Clearing Participant's default. ICC states that under this rule, ICC may use a Clearing Participant's cash, securities or other property constituting Initial Margin for its House account to support liquidity arrangements relating to ICC's payment obligations. Such liquidity arrangements would include borrowing, repurchase transactions, exchange of Initial Margin for other assets or similar transactions, under which equivalent value is provided for such Initial Margin and such equivalent value will be held as Initial Margin and used or applied by ICC solely for the purposes for which Initial Margin in the

House Account may be used. ICC states that any use of House Initial Margin may be used in a manner consistent with ICC's liquidity policies and applicable law. Additionally, ICC states that in connection with a Clearing Participant's default, ICC will be able to exchange cash that is House Initial Margin for the equivalent value of securities or cash of a different currency.

Proposed new Rule 802(f)(iv) addresses ICC's authority to pledge assets in the Guaranty Fund to secure loans made to the clearing house, including for purposes of default management, or to transfer such assets to counterparties under repurchase transactions or similar transactions. ICC states that the proceeds of such borrowings or repurchase transactions may be used in accordance with ICC's authority to use Guaranty Fund assets under ICC's current rules. Additionally, ICC states that, in connection with a Clearing Participant's default, ICC will be able to exchange cash in the Guaranty Fund for the equivalent value of securities or cash of a different currency.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁴ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such self-regulatory organization. Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, to assure the safeguarding of securities and funds which

⁴ 15 U.S.C. 78s(b)(2)(C).

⁵ 15 U.S.C. 78q-1(b)(3)(F).

are in the custody or control of the clearing agency or for which it is responsible and, in general, to protect investors and the public interest.

The Commission finds that the proposed rule change is consistent with the requirements of Section 17A of the Act⁶ and the rules and regulations thereunder applicable to ICC. The proposed Liquidity Risk Management Framework would formalize ICC's liquidity management program, including the description of ICC's liquidity resources, the order of use of such resources, and the methodology for testing the sufficiency of these resources. In addition, proposed Rules 402(j) and 802(f)(iv) would permit ICC to use, and provide details as to how ICC would use, margin and Guaranty Fund assets to support ICC's liquidity obligations. The Commission believes the proposed rule change is reasonably designed to allow ICC to manage its liquidity needs in the event of one or more Clearing Participant defaults and, therefore, promotes the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, and assures the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.⁷

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁸ and the rules and regulations thereunder.

⁶ 15 U.S.C. 78q-1.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (SR-ICC-2014-08) be, and hereby is, approved.¹⁰

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Kevin M. O'Neill
Deputy Secretary

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⁹ 15 U.S.C. 78s(b)(2).

¹⁰ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹¹ 17 CFR 200.30-3(a)(12).