



8011-01

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82641; File No. SR-ICC-2018-002]

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice Relating to ICC's End-of-Day Price Discovery Policies and Procedures

February 6, 2018

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 26, 2018, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change, security-based swap submission, or advance notice as described in Items I, II, and III below, which items have been prepared primarily by ICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed rule change is to make revisions to the ICC End-of-Day Price Discovery Policies and Procedures (“Pricing Policy”) related to the bid-offer width (“BOW”) methodology for Single Name instruments. These revisions do not require any changes to the ICC Clearing Rules.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

In its filing with the Commission, ICC included statements concerning the purpose of and basis for the proposed rule change, security-based swap submission, or advance notice and discussed any comments it received on the proposed rule change, security-based swap submission, or advance notice. The text of these statements may be examined at the places specified in Item IV below. ICC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

ICC proposes revising its Pricing Policy to enhance the methodology used to determine bid-offer widths for Single Name instruments. ICC believes the enhancement will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions cleared by ICC.

(a) Summary of Proposed Changes

Each business day, ICC determines end-of-day ("EOD") levels through its established price discovery process, based on EOD submissions from its Clearing Participants. ICC uses these levels for mark-to-market and risk management purposes. As part of its price discovery process, ICC determines BOWs for each clearing-eligible instrument. The BOWs are then used in ICC's price discovery process as inputs in the determination of EOD levels and Firm Trades.

The current methodology for determining BOWs for CDS instruments referencing a given Single Name reference entity is based on observed intraday bid and offer spread-levels for the most actively traded instrument ("MATI") across the term structure and

cleared coupons. ICC begins with a spread-based consensus BOW derived from intraday quotes for the MATI. This consensus BOW is then multiplied by a “scrape factor” to reflect any differences between the BOWs provided in intraday quotes and BOWs achieved in the market. Once the consensus BOW is determined, ICC applies various factors to the consensus BOW to reflect differences in instrument liquidity at longer and shorter maturities, and at higher and lower coupons. Scaling across maturities is performed in spread terms, while scaling of BOWs across coupons is performed in price terms. The transformations from spread to price are achieved using the ISDA Standard Model.

ICC is proposing to enhance the methodology for determining Single Name BOWs. The proposed enhancement eliminates the use of the ISDA Standard Model from the computation of Single Name BOWs³. ICC established its current BOW methodology at a time when it accepted submissions to its EOD price discovery process in both spread and price terms, at the discretion of its Clearing Participants. Since that time, ICC has enhanced its EOD price discovery process to accept Single Name submissions only in price terms, eliminating the need for spread-based BOWs. The proposed enhancement also determines BOWs consistently across Single Names on all reference entities, including those for which only sparse intraday data is available. Further, the enhancement extends the application of price-based BOW floors from the 0/3 month, 6 month and 1 year benchmark-tenors to the entire set of benchmark-tenors from 0 month to 10 years. Finally, the proposed enhancement introduces a dynamic feature that can widen BOWs in

³ Note that the ISDA Standard Model is not used in ICC’s methodology for determining BOWs for Index instruments, and that the proposed enhancements do not change ICC’s methodology for determining BOWs for Index instrument.

response to the observed dispersion of price-space mid-levels submitted in the EOD price-discovery process.

Under the proposed enhancement ICC will compute a consensus BOW, as described below, not only for the MATI as in the current methodology, but for each benchmark instrument. Rather than consensus BOWs being derived from intraday quotes, they will be computed as a price-based floor plus a relative BOW multiplied by the currently-observed level, where the currently-observed level is the average of price-space mid-levels submitted in the EOD price discovery process. The Risk Management Department will determine relative BOWs and price-based floors in consultation with the Trading Advisory Committee (“TAC”). The relative BOWs will reflect observed variability in SN levels for MATIs. The price-based floors will reflect BOWs established for Indices representing baskets of the most distressed SNs.

As stated above, ICC currently applies various factors to consensus BOWs to reflect differences in instrument liquidity at longer and shorter maturities, and at higher and lower coupons. Under the proposed enhancement, ICC will apply analogous factors to consensus BOWs. Specifically, to determine a systematic EOD BOW for each benchmark-instrument at the most-actively-traded coupon (“MATC”), ICC will apply tenor scaling-factors to the corresponding consensus BOWs. These tenor-scaling factors reflect the BOW of each tenor relative to the BOW of the most-actively-traded tenor. To determine the systematic EOD BOWs for each benchmark-instrument at other coupons, ICC will apply a combination of tenor scaling-factors and coupon scaling-factors to the corresponding consensus BOWs. The coupon scaling-factors reflect increased BOWs at coupons larger or smaller than the MATC. The tenor and coupon scaling factors will be

set by the ICC Risk Management Department, in consultation with the TAC, to reflect ratios of observed variability in SN levels at the MATI and at a given tenor / coupon. As with the current methodology, once all applicable factors have been applied, ICC will then apply the appropriate Single Name variability factor⁴, resulting in the final systematic BOWs.

Under the proposed enhancement, ICC will determine the final EOD BOWs as the greater of an instrument's systematic BOW, and a dynamic BOW established for the instrument. The dynamic BOW is the dispersion of price-space mid-levels submitted to the EOD price-discovery process for the given instrument.

ICC proposes revisions to the Governance section of the Pricing Policy to note that under the proposed approach, the responsibilities of the ICC Risk Management department include determining the price-based floors, relative BOWs, tenor scaling factors, and coupon scaling factors used to establish BOWs. ICC also proposes generalizing language to note that the ICC Risk Management department is responsible for ensuring that appropriate EOD levels are determined. ICC proposes to remove references to scrape factors, which under the current approach are applied to consensus BOWs determined from intraday quotes "scraped" from trader emails, but are not applicable under the proposed approach in which the determination of consensus BOWs does not involve "scraped" intraday quotes. ICC also proposes to add clarification that parameters used in the EOD price discovery process are established by the ICC Risk Management department in consultation with the TAC.

⁴ The Single Name variability factor is an existing feature of the system, used to widen Single Name BOWs in response to the variability of intraday quotes. See SR-ICC-2017-006.

ICC proposes a revision to note that under the proposed approach, the TAC will review and provide input on revisions to BOW price-based floors. ICC proposes to remove reference to the TAC's review of scrape factors, which are not applicable under the proposed approach.

ICC proposes clarifying changes to the Pricing Policy. ICC proposes adding a clarifying footnote regarding ICC's use of the ISDA Standard Model. To improve clarity, ICC proposes to remove a sentence summarizing the inputs used by ICC to determine EOD BOWs for Single Name and index instruments, as these inputs are described in detail elsewhere in the document. ICC proposes a revision to note that trading desks at each self clearing member ("SCM") are requested to copy ICC on the intraday quotes they provide market participants via email. ICC proposes removing outdated references regarding the computation of Single Name consensus BOWs. ICC proposes a revision to correct a typographical error by including the adjustment of trade levels to limit profit/loss impact (if required), in a list of "cross-and-lock" algorithm components. ICC proposes a clarifying edit to note that, for a given index, the EOD BOWs are computed based on the consensus BOW of the on-the-run instrument. ICC also proposes minor updates to the times of various end-of-day processes for different settlement windows, to reflect current practice. Finally, ICC proposes updates to section numbering and correction of a typographical error in a heading.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency be designed to protect investors and the public interest and to comply

⁵ 15 U.S.C. 78q-1(b)(3)(F).

with the provisions of the Act and the rules and regulations thereunder. ICC believes that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC, in particular, to Section 17(A)(b)(3)(F)⁶, because ICC believes that the proposed rule changes will assure the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, as the proposed revisions allow for an enhanced methodology for determining Single Name BOWs, based on a function of the observed and submitted EOD levels. Following such changes, ICC will continue to maintain a robust EOD price discovery process, which includes the determination of EOD pricing levels and Firm Trade determinations. As such, the proposed changes are designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the meaning of Section 17A(b)(3)(F)⁷ of the Act.

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

ICC does not believe the proposed rule changes would have any impact, or impose any burden, on competition. The proposed changes to ICC's BOW methodology for Single Name instruments will apply uniformly across all market participants. Therefore, ICC 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

Written comments relating to the proposed rule change have not been solicited or received. ICC will notify the Commission of any written comments received by ICC.

⁶ Id.

⁷ Id.

III. Date of Effectiveness of the Proposed Rule Change

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ICC-2018-002 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090.

All submissions should refer to File Number SR-ICC-2018-002. This file number should be included on the subject line if e-mail 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, N.E., Washington, D.C. 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 Credit and on ICE Clear Credit'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-ICC-2018-002 and should be submitted on or before **[INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸

Eduardo A. Aleman,

Assistant Secretary.

⁸ 17 CFR 200.30-3(a)(12).

