



Maria Alarcon
Staff Attorney

April 8, 2021

Re: Updates to ICC Rules and ICC Exercise Procedures Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6(a)

VIA ELECTRONIC PORTAL

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Dear Mr. Kirkpatrick:

ICE Clear Credit LLC (“ICC”) hereby submits, pursuant to Section 5c(c)(1) of the Commodity Exchange Act (the “Act”) and Commodity Futures Trading Commission (“Commission”) Regulation 40.6(a), a self-certification of changes to the ICC Clearing Rules (the “Rules”)¹ and ICC Exercise Procedures in connection with the clearing of credit default index swaptions (“Index Swaptions”). ICC is registered with the Commission as a derivatives clearing organization (“DCO”). ICC intends to implement the changes no sooner than the tenth business day following the filing of this submission with the Commission at its Washington, D.C. headquarters and with its Chicago regional office.

ICC proposes revising the Rules and the Exercise Procedures related to the clearing of Index Swaptions. This submission includes a description of the changes to the Rules and the Exercise Procedures. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

Pursuant to an Index Swaption, one party (the “Swaption Buyer”) has the right (but not the obligation) to cause the other party (the “Swaption Seller”) to enter into an index credit default swap transaction at a pre-determined strike price on a specified expiration date on specified terms. In the case of Index Swaptions cleared by ICC, the underlying index credit default swap is limited to certain CDX and iTraxx index credit default swaps that are accepted for clearing by ICC, and which would be automatically cleared by ICC upon exercise of the Index Swaption by the Swaption Buyer in accordance with its terms. ICC proposes minor revisions to support the clearing of Index Swaptions, including updates related to iTraxx Index Swaptions, an enhancement to the exercise and assignment process, and other clarifications. The proposed revisions are described in detail as follows.

I. Rule Amendments

The proposed amendments consist of minor revisions to Rule 26R-319, which addresses procedures for settlement of an exercised Index Swaption. Additional settlements may be required under Rule 26R-319(b) if one or more Credit Events has occurred with respect to the underlying index at or prior to the expiration date of the Index Swaption. Regarding the determination of Index Swaption settlement amounts, Rule 26R-319(b)(ii) currently contemplates the inclusion of an additional accrual-related component (“Additional Accrual”) which is specified as zero in accordance with ICC Circular 2020/070.² The circular describes how

¹ Capitalized terms used but not defined herein have the meanings specified in the Rules.

² ICC Circular 2020/070, issued on November 6, 2020, available at:



ICC determines settlement amounts for cleared Index Swaptions in light of industry discussions and refers market participants to a detailed presentation on ICC's website.³ Amended Rule 26R-319(b)(ii) would omit the description of the Additional Accrual. The circular and presentation on the determination of Index Swaption settlement amounts would remain on ICC's website.

Regarding iTraxx Index Swaptions, ICC proposes to amend Rule 26R-319(c), which applies in the case of a relevant M(M)R Restructuring Credit Event. ICC proposes to omit paragraph (i), related to the delivery of MP Notices by Swaption Buyer and Swaption Sellers. ICC does not propose any changes to paragraph (ii), which details how an Underlying New Trade comes into effect. An Underlying New Trade remains defined in Rule 26R-102 as a new single name CDS trade that would arise upon exercise of an Index Swaption where a relevant Restructuring Credit Event, if applicable, has occurred with respect to a reference entity in the relevant index. ICC proposes to amend paragraph (iii) and remove paragraph (iv) which currently discuss the treatment of the Underlying New Trade in respect of the Event Determination Date. Instead, amended paragraph (iii) would discuss the treatment of the Underlying New Trade depending on whether the expiration date occurred prior to, or on or following, the commencement of the CEN Triggering Period (as defined in the Restructuring Procedures).⁴ If the expiration date occurs prior to commencement of the period, the Underlying New Trade will be subject to the provisions of the CDS Restructuring Rules in Subchapter 26E (and may become a Triggered Restructuring CDS Transaction thereunder). If the Expiration Date occurs on or following commencement of such period, neither party will be permitted to deliver an MP Notice, the Underlying New Trade cannot become a Triggered Restructuring CDS Transaction and no Event Determination Date or settlement will occur.

II. Exercise Procedures

The Exercise Procedures supplement the provisions of Subchapter 26R of the Rules with respect to Index Swaptions and provide further detail as to the manner in which Index Swaptions may be exercised by Swaption Buyers, the manner in which ICC will assign such exercises to Swaption Sellers, and certain actions that ICC may take in the event of technical issues.

ICC proposes an enhancement to the exercise and assignment process in the Exercise Procedures. ICC proposes to revise Paragraph 1, which sets out key definitions used for the exercise of Index Swaptions, to reference Paragraph 2.2(e) in respect of the Pre-Exercise Notification Period. Paragraph 2.2(e) describes the Pre-Exercise Notification Period during which an exercising party can submit, modify, and/or withdraw preliminary exercise notices. The Exercise Procedures allow firms to submit preliminary exercise notices such that the preliminary instructions can be used as the final exercise instructions in the event of a communications failure during the exercise window. The proposed changes allow ICC to identify each exercising party's "in the money" Index Option open positions for the relevant expiration date and submit, on behalf of the exercising party, preliminary exercise notices for all such in "the money" positions. Such preliminary exercise notices submitted by ICC for an exercising party may be modified or withdrawn by the exercising party during the Pre-Exercise Notification Period. Additionally, ICC proposes a related change to Paragraph 2.2(i) to reference ICC's ability to submit, on behalf of an exercising party, a preliminary exercise notice.

ICC proposes updates to Paragraphs 2.6 and 2.8, which include procedures to address a failure of the electronic system established by ICC for exercise ("Exercise System Failure"). In such case, Paragraph 2.6 provides ICC with several options including, canceling and rescheduling the Exercise Period (i.e., the period

https://www.theice.com/publicdocs/clear_credit/circulars/Circular_2020_070.pdf.

³ The presentation on Index Swaption settlement amounts is available at:

https://www.theice.com/publicdocs/Index_Option_Settlement_Payments.pdf.

⁴ ICC Restructuring Procedures available at:

https://www.theice.com/publicdocs/clear_credit/ICE_Clear_Credit_Restructuring_Procedures.pdf.



on the expiration date of an Index Swaption during which the Swaption Buyer may deliver an exercise notice to ICC to exercise all or part of such Index Swaption). The proposed changes clarify that canceling and rescheduling the Exercise Period may include scheduling a new Pre-Exercise Notification Period, in which case any preliminary exercise notices and exercise notices submitted prior will be ineffective. Paragraph 2.8 addresses the situation where ICC will automatically exercise on the expiration date each open position (of all exercising parties) in an Index Swaption that is determined by ICC to be “in the money” on such date. ICC proposes the inclusion of additional language relating to its determination of whether an Index Swaption is “in the money” in connection with the clearing of iTraxx Index Swaptions.

Core Principle Review:

ICC reviewed the DCO core principles (“Core Principles”) as set forth in the Act. During this review, ICC identified the following Core Principles as being impacted:

Risk Management: The changes to the Rules and the Exercise Procedures are consistent with the risk management requirements of Core Principle D. As described above, the proposed changes would support the clearing of Index Swaptions by ICC, including updates related to iTraxx Index Swaptions, an enhancement to the exercise and assignment process, and other clarifications, to ensure that the Rules and the Exercise Procedures clearly reflect the requirements and procedures applicable to iTraxx Index Swaptions and Index Swaptions more generally. The amended Exercise Procedures incorporate an additional safety feature, including in the case of a technology or communication error, to allow ICC to submit preliminary exercise notices on behalf of exercising parties. ICC believes that the proposed revisions would thus continue to ensure that ICC possesses the ability to manage the risks associated with discharging its responsibilities.

Settlement Procedures: The amendments to the Rules and the Exercise Procedures are consistent with the requirements of Core Principle E and Commission Regulation 39.14. The Rules continue to clearly set out the procedures for settlement of Index Swaptions on exercise, which result in the creation of a cleared underlying index CDS Contract (and in some cases in the event of a Restructuring Credit Event, an Underlying New Trade. The Rules further continue to enable ICC to identify and manage the risks of settlement of Index Swaptions on exercise.

System Safeguards: The changes to the Rules and the Exercise Procedures are consistent with the system safeguards requirements of Core Principle I. The proposed changes allow ICC to identify each exercising party’s “in the money” Index Option open positions for the relevant expiration date and submit preliminary exercise notices for all such in “the money” positions. These revisions are intended to serve as a safety feature, including in the case of a technology or communication error, and such preliminary exercise notices submitted by ICC may be modified or withdrawn by the exercising party during the Pre-Exercise Notification Period. Such procedures are designed to help mitigate the impact from technical issues to ensure that the system is reliable, secure and has adequate scalable capacity.

Public Information: The changes to the Rules and the Exercise Procedures are consistent with the public information requirements of Core Principle L. The Rules and the Exercise Procedures are currently publically available on ICC’s website, thus enabling market participants to identify and evaluate any risk and costs associated with using ICC’s services.

Legal Risk: The changes to the Rules and the Exercise Procedures are consistent with the requirements of Core Principle R and Commission Regulation 39.27. The Exercise Procedures supplement the provisions of Subchapter 26R of the Rules with respect to Index Swaptions and further ensure that ICC’s Rules clearly reflect the terms and conditions applicable to Index Swaptions. The proposed changes would continue to support the legal basis for ICC’s clearance of Index Swaptions and operation of the exercise and assignment process.



Amended Rules:

The proposed changes consist of amendments to the Rules and the Exercise Procedures.

Annexed as Exhibits hereto are the following:

- A. Proposed amendments to the ICC Rules
- B. Proposed amendments to the ICC Exercise Procedures

Certifications:

ICC hereby certifies that the changes comply with the Act and the regulations thereunder. There were no substantive opposing views to the changes.

ICC further certifies that, concurrent with this filing, a copy of the submission was posted on ICC's website, and may be accessed at: <https://www.theice.com/clear-credit/regulation>.

ICC would be pleased to respond to any questions the Commission or the staff may have regarding this submission. Please direct any questions or requests for information to the attention of the undersigned at (312) 836-6854.

Sincerely,

A handwritten signature in black ink that reads "Maria Alarcon". The signature is written in a cursive, flowing style.

Maria Alarcon
Staff Attorney