



Maria Alarcon
Staff Attorney

July 26, 2021

Re: Updates to 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 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 Exercise Procedures in connection with the clearing of Index Swaptions. This submission includes a description of the changes to 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.

The Exercise Procedures supplement the provisions of Subchapter 26R of the ICC Clearing Rules (the “Rules”) with respect to Index Swaptions¹ 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. The proposed revisions are described in detail as follows.

ICC proposes changes related to certain fallback measures included in the Exercise Procedures. ICC proposes to amend Paragraph 2.6, which includes procedures to address a failure of the electronic system established by ICC for exercise (“Exercise System Failure”). In such case, Paragraph 2.6 currently provides ICC with the following options: (i) cancel and reschedule the Exercise Period (i.e., the period 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); (ii) determine that automatic exercise will apply; and/or (iii) take such other action as ICC determines to be appropriate to permit exercising parties to submit

¹ 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.



exercise notices and to permit ICC to assign such notices. The proposed changes remove the ability to cancel and reschedule the Exercise Period and renumber the following options accordingly.

ICC maintains the ability to effect an automatic exercise under Paragraph 2.8, which 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. Whether an Index Swaption is “in the money” is currently based on the average of the end-of-day (“EOD”) price of the underlying CDS contract on the preceding business day and on the expiration date, and where relevant, also based on the average of the EOD price on the preceding business day and on the expiration date of each single name constituent contract with respect to which an Existing Restructuring² has occurred. Under the proposed changes, whether an Index Swaption is “in the money” is based on the relevant market-observed prices for the underlying CDS contract determined by ICC using the intraday market data available to it at the time, or the EOD price of the underlying CDS contract on the expiration date established at any Intercontinental Exchange, Inc. (“ICE”) clearinghouse, and where relevant, also based on the last available ICE EOD price of each single name constituent contract with respect to which an Existing Restructuring has occurred. Such changes provide ICC with additional flexibility, as ICC need not wait until EOD to execute an automatic exercise, and allow this fallback measure to coincide with the timing of the Exercise Period.³

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 revisions to the Exercise Procedures are consistent with the risk management requirements of Core Principle D. The proposed changes will facilitate understanding of how unforeseen operational or technical issues are handled and promote preparedness by market participants. Removing the option to cancel and reschedule the Exercise Period will streamline and simplify ICC’s procedures in the case of an Exercise System Failure. Moreover, to provide consistency where possible in the event of an Exercise System Failure, the changes allow the timing of automatic exercise to coincide with the timing of the Exercise Period. ICC believes that the proposed revisions would continue to ensure that ICC possesses the ability to manage the risks associated with discharging its responsibilities.

System Safeguards: The revisions to the Exercise Procedures are consistent with the system safeguards requirements of Core Principle I. The proposed changes remove the option to cancel and reschedule an Exercise Period, which would reduce the potential for confusion regarding ICC’s practices under such circumstances. The proposed changes also provide ICC with additional flexibility for determining whether an Index Swaption is “in the money” such that ICC need not wait until EOD to execute an automatic exercise to provide consistency where possible in the case of an Exercise System Failure. These amendments would streamline and simplify ICC’s procedures in the event of an Exercise System Failure and help mitigate the impact from operational or technical issues to ensure that the system is reliable, secure and has adequate scalable capacity.

² An Existing Restructuring is defined in ICC Rule 26R-319(c) and is applicable upon the occurrence of an M(M)R Restructuring Credit Event with respect to an Index Swaption for which the DC Credit Event Announcement or Regional CDS Committee Restructuring Announcement occurs on or prior to the expiration date.

³ The Exercise Period starts at the Swaption Exercise Start Time (with respect to an Index Swaption referencing a CDX.NA index, 9:00 a.m., New York time and referencing an iTraxx Europe index, 9:00 a.m., London time) and ends at the Swaption Exercise Cut-Off Time (with respect to an Index Swaption referencing a CDX.NA index, 11:00 a.m., New York time and referencing an iTraxx Europe index, 4:00 p.m., London time) under the Exercise Procedures.



Legal Risk: The changes to 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 Exercise Procedures.

Annexed as an Exhibit hereto are the following:

- A. 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