

All submissions should refer to File Number SR–GEMX–2018–35 and should be submitted on or before November 9, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–84424; File No. SR–ICC–2018–010]

### Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to ICC’s Stress Testing Framework and ICC’s Liquidity Risk Management Framework

October 15, 2018.

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 October 1, 2018, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which Items have been prepared primarily by ICC. ICC filed the proposed rule changes pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b–4(f)(4)(ii) thereunder,<sup>4</sup> so that the proposal was immediately effective upon filing with the Commission. 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 revise the ICC Stress Testing Framework and the ICC Liquidity Risk Management Framework. These revisions do not require any changes to the ICC Clearing Rules (“Rules”).

#### 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 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. 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

##### (a) Purpose

ICC proposes revising its Stress Testing Framework and its Liquidity Risk Management Framework. Specifically, ICC proposes clarifying changes regarding current aspects of its stress testing and liquidity stress testing practices to address comments received from independent validations, as well as additional clean-up changes. The independent validator comments revolve around clarification updates that do not change ICC’s current stress testing and liquidity stress testing practices. ICC’s proposed changes to address the independent validator comments include updates to correct inconsistencies between section numbering and the table of contents, ensure that scenarios are categorized consistently across the ICC Stress Testing Framework and the ICC Liquidity Risk Management Framework, define potentially unclear terminology, and clarify or include additional detail relating to potentially ambiguous phrases or text such that ICC’s documentation provides a clearer view of its stress testing and liquidity stress testing practices. ICC believes such revisions will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions for which it is responsible. The proposed revisions are described in detail as follows.

##### Stress Testing Framework

ICC proposes revisions to the Stress Testing Framework to address independent validator comments and to make clarification and clean-up changes to enhance readability. ICC proposes clean-up changes to the Table of Contents to add two sections, which are not new to the document, but were previously excluded from the Table of Contents. ICC also proposes, for clarity, updates to the ‘Overview’ section to abbreviate “Risk Committee” to “RC.” ICC proposes corresponding changes throughout the document.

ICC proposes amendments to the ‘Predefined Scenarios’ section of the Stress Testing Framework. ICC proposes

to divide the predefined scenarios into four categories. Previously, the Stress Testing Framework divided the predefined scenarios into three categories by combining the Historically Observed Extreme but Plausible Market Scenarios: Severity of Losses in Response to a Baseline Credit Event and the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios into one category. ICC proposes to separate these scenarios into two categories to maintain uniformity throughout the Stress Testing Framework since each represents a distinct sub-section in the ‘Predefined Scenarios’ section of the Stress Testing Framework. Additionally, ICC proposes to categorize the Discordant Spread Scenarios (*i.e.*, scenarios designed to reproduce significant discordant outcomes during the considered period) and the Opposite Discordant Spread Scenarios (*i.e.*, scenarios constructed using the opposite discordant outcomes to those observed during the considered period) as Historically Observed Extreme but Plausible to ensure consistency with the scenarios classified as Historically Observed Extreme but Plausible in the Liquidity Risk Management Framework, which include the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios.

ICC proposes clarifying changes to the ‘Display of Discordant Behavior among Instrument Groups’ section. ICC proposes to more clearly define discordant change as discordant relative spread move. ICC proposes to add clarifying language to define the market depth of sovereign reference entities in terms of the observed weekly trading volumes from the Depository Trust & Clearing Corporation (“DTCC”). In addition, ICC proposes to include language to clarify that the historical period selected to represent the greatest combined discordant change for sovereign reference entities can be different from the one selected for corporate single names (“SNs”).

ICC proposes enhancements to the ‘Reverse Stress Testing: Guaranty Fund Adequacy Analysis’ section to provide additional clarity regarding how ICC performs such analysis. Specifically, ICC proposes to add explanatory language to note that, upon the simultaneous default of two Clearing Participant (“CP”) affiliate groups (“AGs”), ICC considers additional adverse spread realizations and idiosyncratic credit events associated with reference obligations on which the stress tested CP sold protection.

ICC proposes enhancements to the ‘Interest Rate Sensitivity Analysis’

<sup>12</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.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b–4(f)(4)(ii).

section to further clarify its analysis. To avoid confusing interest rate shocks as haircuts, ICC proposes to clarify that interest rate shocks used for stress testing are based on interest rate shocks observed during historical periods used to estimate haircuts.

ICC proposes clarification changes to the 'Guaranty Fund Sizing Sensitivity Analysis' section. ICC's Guaranty Fund ("GF") model aims to establish financial resources that are sufficient to cover hypothetical losses associated with the simultaneous credit events where up to five SN Risk Factor Groups ("RFGs")<sup>5</sup> are impacted. In that, two of the selected SN RFGs are CP AGs (*i.e.*, Cover-2 GF sizing) and the other three RFGs are non-CP RFGs. Under the alternative combination, three of the selected SN RFGs are CP AGs (*i.e.*, Cover-3 GF sizing) and the other two RFGs are non-CP RFGs. Given that two or three of the selected SN RFGs are CP AGs, ICC proposes to provide specific reference to CP AGs when referring to Cover-2 and Cover-3 GF sizing. ICC proposes corresponding changes throughout the document when referencing Cover-2 and Cover-3.

ICC proposes updates to the 'Interpretation of Results' section. For clarity, ICC proposes revisions to specify when it assesses Cover-2 in terms of two CP AGs generating the largest uncollateralized stress losses (*i.e.*, stress losses over their corresponding financial resources) versus two CP AGs generating the largest consumption of the GF. ICC proposes incorporating the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios in its list of Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios to ensure consistency with the Historically Observed Extreme but Plausible Scenarios set forth in the Liquidity Risk Management Framework, which include the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios. In addition, ICC proposes to further clarify the role of large position requirements, noting that large position requirements, although initially excluded, are included in the available total margin used to cover hypothetical losses from stress test results.

ICC proposes amending the 'Post-Stress Testing Review & Governance Structure' section to more clearly reflect the ICC Risk Department's reporting and stress testing obligations. The proposed changes clarify that, for each considered

stress scenario, the ICC Risk Department creates and reviews stress testing results for all applicable CP AGs. The proposed changes further specify which scenarios are provided weekly for reporting purposes and which are provided monthly to the Risk Committee. The proposed changes also note the ICC Risk Department's reporting obligation if deficiencies are uncovered during analysis of certain Cover-2 stress scenarios, along with the ICC Risk Department's obligation to execute stress testing regularly for all CP AGs.

#### Liquidity Risk Management Framework

ICC proposes revisions to its Liquidity Risk Management Framework to make clean-up changes and clarification changes in response to independent validator comments. Specifically, ICC proposes to revise the 'Discordant Scenario' sub-section to more clearly define discordant change as discordant relative spread move. In addition, consistent with the Stress Testing Framework, ICC proposes modifying the 'Required Analysis' section to more clearly reflect the ICC Risk Department's reporting and stress testing obligations. ICC proposes to note that, for each considered stress scenario, the ICC Risk Department executes stress testing daily for all applicable CP AGs. ICC also proposes to specify which scenarios are provided weekly for reporting purposes and which are provided monthly to the Risk Committee.

#### (b) Statutory Basis

Section 17A(b)(3)(F) of the Act<sup>6</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; to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible; and to comply 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),<sup>7</sup> because ICC believes that the proposed rule changes will promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, and contribute to the safeguarding of securities and funds associated with

security-based swap transactions in ICC's custody or control, or for which ICC is responsible. The proposed changes to the Stress Testing Framework and the Liquidity Risk Management Framework to address independent validator comments provide additional clarity and transparency regarding ICC's stress testing and liquidity stress testing practices and enhance ICC's approach to identifying potential weaknesses in the risk methodology as well as the methodology for testing the sufficiency of ICC's liquidity resources. The clarification and clean-up changes that enhance readability further ensure that the documentation of ICC's Stress Testing Framework and Liquidity Risk Management Framework remains up-to-date, clear, and transparent. ICC believes that having policies and procedures that clearly and accurately document ICC's stress testing and liquidity stress testing practices are an important component to the effectiveness of ICC's risk management system, which promotes the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions and contributes to the safeguarding of securities and funds associated with security-based swap transactions in ICC's custody or control, or for which ICC is responsible. As such, the proposed rule changes are designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions and to contribute to the safeguarding of securities and funds associated with security-based swap transactions in ICC's custody or control, or for which ICC is responsible within the meaning of Section 17A(b)(3)(F) of the Act.<sup>8</sup>

In addition, the proposed revisions to the Stress Testing Framework and the Liquidity Risk Management Framework are consistent with the relevant requirements of Rule 17Ad-22.<sup>9</sup> Rule 17Ad-22(b)(3)<sup>10</sup> requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions. The proposed changes to the Stress Testing Framework and the Liquidity Risk Management Framework provide further clarity and transparency regarding ICC's

<sup>8</sup> *Id.*

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

<sup>10</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>5</sup> ICC deems each SN reference entity a Risk Factor. ICC deems a set of SN Risk Factors related by a common parental ownership structure a RFG.

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

<sup>7</sup> *Id.*

stress testing and liquidity stress testing practices and enhance ICC's approach to identifying potential weaknesses in the risk methodology as well as the methodology for testing the sufficiency of ICC's liquidity resources, thereby ensuring that ICC maintains sufficient financial resources to withstand, at a minimum, a default by the two CP families to which it has the largest exposures in extreme but plausible market conditions, consistent with the requirements of Rule 17Ad-22(b)(3).<sup>11</sup>

Rule 17Ad-22(d)(8)<sup>12</sup> requires ICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to have governance arrangements that are clear and transparent to fulfill the public interest requirements in Section 17A of the Act.<sup>13</sup> By updating the Stress Testing Framework and the Liquidity Risk Management Framework so that the documents more clearly reflect the assignment of responsibilities to the ICC Risk Department in terms of reporting and stress testing obligations, the proposed changes will ensure that ICC's governance of the Stress Testing Framework and the Liquidity Risk Management Framework is clear, transparent, and documented accurately, consistent with the requirements of Rule 17Ad-22(d)(8).<sup>14</sup>

#### *(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 Stress Testing Framework and ICC's Liquidity Risk Management Framework 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 Received From Members, Participants or Others*

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.

### **III. Date of Effectiveness of the Proposed Rule Change**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)

of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### **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-ICC-2018-010 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549. All submissions should refer to File Number SR-ICC-2018-010. 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 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-2018-010 and should be submitted on or before November 9, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Eduardo A. Aleman,**

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-84426; File No. SR-DTC-2018-008]

### **Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Clearing Agency Policy on Capital Requirements and the Clearing Agency Capital Replenishment Plan**

October 15, 2018.

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 October 4, 2018, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> 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 proposed rule change consists of amendments to (i) the Clearing Agency Policy on Capital Requirements ("Capital Policy" or "Policy") of DTC and its affiliates, National Securities Clearing Corporation ("NSCC") and Fixed Income Clearing Corporation ("FICC," and together with DTC and NSCC, the "Clearing Agencies"); and (ii) the Clearing Agency Capital Replenishment Plan ("Capital Replenishment Plan" or "Plan") of the

<sup>15</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.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).

<sup>11</sup> *Id.*

<sup>12</sup> 17 CFR 240.17Ad-22(d)(8).

<sup>13</sup> 15 U.S.C. 78q-1.

<sup>14</sup> 17 CFR 240.17Ad-22(d)(8).