

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–84533; File No. SR–ICEEU–2018–015]

### Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Relating to Amendments to the ICE Clear Europe Limited Liquidity Plan

November 5, 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 22, 2018, ICE Clear Europe Limited (“ICE Clear Europe” or the “Clearing House”) 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 primarily by ICE Clear Europe. 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

ICE Clear Europe proposes to amend its Liquidity Plan to reflect changes in its treasury arrangements and certain other enhancements. The amendments do not involve any changes to ICE Clear Europe’s Clearing Rules or Procedures.<sup>3</sup>

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

In its filing with the Commission, ICE Clear Europe 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. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

###### (a) Purpose

ICE Clear Europe is proposing to make certain amendments to its Liquidity Plan to address changes in its treasury activities and to make certain enhancements to liquidity risk stress

testing scenarios and other clarifications.

The approved financial institution (“AFI”) default and AFI plus Member default liquidity stress testing scenarios have been revised to refer to AFIs (such as investment agents and custodians) more generally, rather than to specific institutions. For example, in the AFI default liquidity stress testing scenario, sources used for risk tolerance and risk appetite evaluation have been revised to refer to non-defaulting investment agents, rather than a specific bank. In the AFI plus member default scenario, the scenario has been revised to be based on a default of an AFI (investment agent or custodian) as liquidity provider and clearing member, and sources used for evaluation would look at a non-defaulting service provider. These changes reflect that the Clearing House may use a number of different AFIs, and thus will assist the Clearing House in keeping the Liquidity Plan up to date as service providers change. The amendments also facilitate use by the Clearing House of additional treasury service providers, consistent with its other policies and procedures, which will help the Clearing House appropriately manage risks from treasury operations.

The amendments also add a new Central Securities Depository (CSD) default scenario. This is defined as the relevant CSD (the Federal Reserve (for USD securities), Euroclear Bank (for Euro securities) or Euroclear UK & Ireland (for GBP securities)) being unable to process settlements. Under this scenario, available liquidity is assessed against the expected net cash payment outflow for a single day on a per currency basis, to determine if such a default could result in a delay in payment to clearing members.

Certain other updates and clarifications have been made to the liquidity stress testing scenarios and related sources used in risk tolerance and risk appetite evaluations. These include amendments to address reliance on intra-day overdraft facilities and eliminate references to an ICE Inc. (the parent company of ICE Clear Europe) credit facility. In calculating the investment loss component of liquidity stress losses in clearing member default scenario, the amendments clarify that time deposits are assumed to have a 100% liquidity loss, similar to other unsecured investments. The amendments also clarify certain arrangements with respect to cross-currency investment for purposes of liquidity stress testing. U.S. dollar cash can, in certain circumstances, be invested through reverse repurchase

agreements in assets denominated in Euro or pounds sterling, but for scenarios that look at cash invested with a one-day maturity, such investments will be excluded from available liquidity resources. The amended plan notes that cross-currency investments for Euro and British pounds sterling balances are not permitted.

The amendments update a table of key risk and performance indicators (KRPIs) used by the Clearing House to determine if investments meet the credit and liquidity standards set out in Clearing House investment policies. Additional KRPIs included in the Liquidity Plan address such indicators as rating checks for unsecured investments, repo counterparties and sovereigns; the level of sovereign purchases; matching of the currency of investment and underlying collateral; collateral coverage; and repo balance per counterparty by rating. The KRPI for unsecured investment tenor is reduced to one business day. The KRPI for aggregate reverse repo balance is reduced from 55% of total investments to 50%. The KRPI for reverse repo tenor is revised to be less than or equal to 37 days. Certain other clarifications and typographical corrections are also made.

The amendments also update cross-references to various treasury standard operating procedures used by the Clearing House.

Certain internal reporting processes have been streamlined. A number of weekly and monthly reports would no longer be provided on a routine basis to the Board Risk Committee and the Board. New governance reporting requirements have been added instead, with (i) certain liquidity metrics (including breaches) being provided to the Audit Committee, (ii) collateral and investment data, APS performance and exposure, liquidity metrics and assessments, and KRPI data being provided to the Board, and (iii) a liquidity management summary and certain other summary data being provided to the Business Risk Committee. ICE Clear Europe believes that these amendments will enhance oversight of Clearing House liquidity risk management.

Certain clarifications are made to provisions relating to the annual testing of the Liquidity Plan. In addition, the amendments also provide that at least on an annual basis, the Liquidity Plan will be reviewed by the Executive Risk Committee (instead of the Business Control Committee).

The appendices have been edited to remove an unnecessary list of risk default scenarios.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).

## (b) Statutory Basis

ICE Clear Europe believes that the proposed rule changes are consistent with the requirements of Section 17A of the Act<sup>4</sup> and the regulations thereunder applicable to it, including the standards under Rule 17Ad–22.<sup>5</sup> 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, the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, and the protection of investors and the public interest. In addition, Rule 17Ad–22(e)(7)<sup>7</sup> requires covered clearing agencies to effectively measure, monitor and manage their liquidity risk, including through liquidity stress testing.<sup>8</sup>

The proposed amendments to the Liquidity Plan are designed to update and strengthen the clearing house's policies and procedures relating to liquidity risk management, in light of these requirements. In particular, the revised policies will enhance certain liquidity stress testing scenarios, by more readily taking into account relevant changes in treasury service providers in AFI failure scenarios and addressing the possibility of a CSD failure through the CSD default scenario. The amendments also update monitoring metrics and standards, including through revised KRPIs. In addition, the revisions improve internal reporting and oversight of liquidity risk management, and specify the appropriate governance framework for review of liquidity stress testing and related metrics and parameters, among other matters. In ICE Clear Europe's view, the amendments thereby enhance the ability of the clearing house to assess potential liquidity events that may affect its ability to conduct settlements for cleared transactions, which in turn will strengthen its ability to manage such events in order to continue clearing house operations. As

<sup>4</sup> 15 U.S.C. 78q–1.

<sup>5</sup> 17 CFR 240.17Ad–22.

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

<sup>7</sup> 17 CFR 240.17Ad–22(e)(7).

<sup>8</sup> Specifically, Rule 17Ad–22(e)(7)(vi) requires that the covered clearing agency:

“(vi) Determin[e] the amount and regularly testing the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under paragraph (e)(7)(i) of this section by, at a minimum:

(A) Conducting stress testing of its liquidity resources at least once each day using standard and predetermined parameters and assumptions. . . .”  
17 CFR 240.17Ad–22(e)(7).

such, ICE Clear Europe believes that the changes will promote the prompt and accurate settlement of securities and derivatives transactions and, in general, protect investors and the public interest within the meaning of Section 17A(b)(3)(F).<sup>9</sup> Furthermore, and for similar reasons, ICE Clear Europe believes that the amendments are consistent with the specific liquidity testing and monitoring requirements of Rule 17Ad–22(e)(7).<sup>10</sup>

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

ICE Clear Europe does not believe the proposed amendments would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The amendments are being adopted to enhance the Clearing House's own liquidity stress testing procedures. The amendments are not expected to change the rights or obligations of Clearing Members or the terms or conditions of any cleared contract. In addition, the amendments should not materially affect the cost of clearing for Clearing Members or other market participants, and should not otherwise affect accessing to clearing for any market participants. As a result, the amendments should not affect competition among Clearing Members or other market participants.

*(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

Written comments relating to the proposed amendments have not been solicited or received by ICE Clear Europe. ICE Clear Europe will notify the Commission of any comments received with respect to the proposed rule change.

**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.

<sup>9</sup> 15 U.S.C. 78q–1(b)(3)(F).

<sup>10</sup> 17 CFR 240.17Ad–22(e)(7).

**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–ICEEU–2018–015 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1090.

All submissions should refer to File Number SR–ICEEU–2018–015. 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 a.m. and 3 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe's website at <https://www.theice.com/clear-europe/regulation#rule-filing>. 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–ICEEU–2018–015 and should be submitted on or before November 30, 2018.

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

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84536; File No. SR-Phlx-2018-63]

### Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rule 1101A, Terms of Option Contracts

November 5, 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 23, 2018, Nasdaq PHLX LLC (“Phlx” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Exchange Rule 1101A, Terms of Option Contracts.

The text of the proposed rule change is available on the Exchange’s website at <http://nasdaqphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange 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. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

#### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The purpose of the proposed rule change is to adopt new Exchange Rules 1101A(e)(I), 1101A(f) and 1101A(g). Proposed Rules 1101A(e)(I) and 1101A(g) would establish the manner of determining an underlying index component security’s price for purposes of calculating the current index value at expiration of an overlying index option when (i) the primary market for that security does not open for trading on a given day, and (ii) the Options Clearing Corporation (“OCC”) does not exercise its authority to establish the index option settlement value.<sup>3</sup> They also acknowledge OCC’s authority under its own rules and by-laws to establish settlement prices in certain circumstances. Proposed new Rule 1101A(f) clarifies an issue relating to the level of indexes underlying A.M.-settled index options at expiration.

##### Proposed Rules 1101A(e)(I) and (g)

Exchange Rule 1101A(e) currently states that the current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under Exchange rules and OCC rules, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, *except* that in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The Exchange now proposes to add new Rule 1101A(g) to deal expressly with cases where the entire primary market for an underlying component security is *not* open on that day. Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.<sup>4</sup>

<sup>3</sup> Three of the Exchange’s affiliated options exchanges, Nasdaq ISE, LLC (“ISE”), The Nasdaq Stock Market LLC (“Nasdaq”) and Nasdaq BX, Inc. (“BX”), will also be proposing rule changes relating to the manner of determining an underlying index component security’s price for purposes of calculating the current index value at expiration of an index option under these circumstances. See SR-NASDAQ-2018-081, SR-BX-2018-049, and SR-ISE-2018-88. The Exchange desires its rules to be aligned with those of the affiliated exchanges.

<sup>4</sup> P.M.-settled options are settled based upon the closing index value for the day on which the index

Proposed Rule 1101A(g) would add an exception and would state that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. Proposed new Rule 1101A(g) would permit market participants the certainty of knowing the settlement value on the day on which the primary market fails to open. Additionally, the provision would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.<sup>5</sup>

The new rule would also state that this procedure shall not be used if the current index value at expiration is fixed in accordance with OCC rules and by-laws. This language recognizes that OCC is authorized under its rules and by-laws to take certain actions relating to settlement in the event of the unavailability or inaccuracy of the current underlying interest value.<sup>6</sup> The proposed language makes clear that Rule 1101A(g) would *not* apply in the event that OCC exercises its authority to determine settlement prices. Rather, the proposed new language would apply only when a primary market does not open and OCC elects not to exercise its authority to intervene and take action to establish a settlement price. The Exchange would otherwise defer to

options contract is exercised in accordance with OCC rules or, if such day is not a business day, for the most recent business day. See Phlx Rule 1101A(d).

<sup>5</sup> The index calculator for the NDX, MNX and BKX indexes, which are products traded on Nasdaq affiliated exchanges, uses the previous day’s closing price if components of the index do not open.

<sup>6</sup> See OCC By-Laws Article XVII, Section 4(a), which provides in relevant part that if OCC shall determine that the primary market for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that OCC may be entitled to take under OCC’s bylaws and rules, the, OCC is empowered to take any or all of a range of permitted actions with respect to any series of options on such index, including fixing the exercise settlement amount. Proposed Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.

<sup>11</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.