

As a result, DTC would like to remove the Security Holder Tracking Service from the Procedures and the related fees from the Fee Guide.

#### Proposed Rule Change

In order to implement the proposal above, DTC would delete the provisions describing the Security Holder Tracking Service from the applicable Procedures, specifically the provisions relating to the Security Holder Tracking Service contained in the Settlement Service Guide<sup>18</sup> and the Underwriting Service Guide,<sup>19</sup> respectively. DTC would also remove the above-described fees from the Fee Guide.<sup>20</sup>

#### 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>21</sup> DTC believes that the proposed rule change is consistent with this provision because it would provide enhanced clarity and transparency for participants with respect to services offered by DTC by updating the Procedures to remove the ability to access a service that Participants and issuers did not utilize and are unlikely to utilize in the future.

Therefore, by providing enhanced clarity and transparency in the Rules regarding the services provided by DTC, DTC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

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

DTC does not believe that the proposed rule change would have any impact on competition. Participants and issuers have not used the Security Holder Tracking Service and are unlikely to use the service in the future. Therefore, DTC believes the proposed rule change would have no effect on Participants or issuers, other than to remove the unutilized Security Holder Tracking Service from the Procedures.

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

DTC has not received or solicited any written comments relating to this proposal. DTC will notify the

Commission of any written comments received by DTC.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>22</sup> of the Act and paragraph (f)<sup>23</sup> 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-DTC-2021-006 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-DTC-2021-006. 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 the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>).

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-DTC-2021-006 and should be submitted on or before May 19, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>24</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-91636; File No. SR-ICC-2021-012]

#### Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the ICC Transition of the Rates Used for Calculating Price Alignment Amounts

April 22, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on April 15, 2021, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by ICC. ICC filed the proposed rule change pursuant Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder<sup>4</sup> such that the proposed rule change 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.

<sup>24</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)(1).

<sup>18</sup> See *supra* note 13.

<sup>19</sup> See *supra* note 14.

<sup>20</sup> See *supra* notes 15-17.

<sup>21</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f).

## 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 change the interest rates used for computing price alignment amounts on Mark-to-Market Margin Balances. These revisions do not require any changes to the ICC Clearing Rules (the "Rules").<sup>5</sup>

## 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

#### (a) Purpose

ICC proposes to change the interest rates used for computing price alignment amounts on Mark-to-Market ("MTM") Margin Balances under ICC Rule 401(g). The target date of the transition is Monday, June 14, 2021, subject to any regulatory review or approval process. On the transition date, ICC would begin calculating price alignment amounts for Euro ("EUR") denominated instruments using the Euro Short-Term Rate ("€STR") rather than the Euro Overnight Index Average ("EONIA") and for U.S. Dollar ("USD") denominated instruments using the Secured Overnight Financing Rate ("SOFR") rather than the Effective Federal Funds Rate ("EFFR"). Such changes do not require any revisions to the ICC Rules or other written policies and procedures. In accordance with ICC Rule 401(g), the rate in respect of price alignment amounts on any MTM Margin Balance is determined by ICC.

The proposed changes are in response to requests by industry participants and follow similar changes for other cleared swap products. The European Central Bank's ("ECB") working group on EUR risk-free rates recommended €STR as the EUR risk-free rate and the replacement for EONIA in September

2018.<sup>6</sup> The ECB began publishing €STR in October 2019 and the working group is assisting the market in transitioning to €STR before EONIA is discontinued on January 3, 2022.<sup>7</sup> The Alternative Reference Rates Committee ("ARRC") was convened by the Federal Reserve Board and the Federal Reserve Bank of New York and identified SOFR as the rate representing best practice for use in certain new USD derivatives and other financial contracts in 2017.<sup>8</sup> The ARRC published a transition plan including specific steps and timelines to encourage the adoption of SOFR.<sup>9</sup>

In connection with the proposed transition, feedback from ICC clearing participants ("CPs") has indicated a desire for one-time adjustment payments to or from the CP, as appropriate, to account for the reasonably expected valuation changes for Contracts associated with the use of the new interest rates. ICC thus proposes to calculate such one-time adjustment payments and make corresponding payments to and collections from CPs in connection with the transition of the rates used for calculating price alignment amounts.

#### Proposed Transition Process

On the transition date, ICC proposes to begin using the new rates for calculation of price alignment amounts. CDS denominated in EUR will stop using EONIA and will start using €STR, and CDS denominated in USD will stop using EFFR and will start using SOFR. The target transition date at the time of this filing is Monday, June 14, 2021 but may be delayed by ICC. Any revised transition date will fall on a Monday to maintain the proposed operational process and will be publicized by ICC. The €STR and SOFR rates available on Monday, June 14, 2021 will be applied to MTM Margin Balances of Friday, June 11, 2021 for the determination of the first day of price alignment amounts using the new rates.

In connection with the transition of the rates, ICC proposes to calculate one-time adjustment amounts and pay or collect, as appropriate, such amounts to or from CPs to account for the reasonably expected valuation changes associated with the use of the new interest rates. In calculating the

adjustment amounts, ICC will use the following methodology, which has been subject to substantial discussion and feedback from market participants.

#### One-Time Adjustment Methodology

The proposed one-time adjustment methodology is set out as follows:

- ICC will obtain implied hazard term structures by using the end-of-day ("EOD") settlement values and the near EOD discount rate term structure for the rate being replaced (EFFR for USD denominated and EONIA for EUR denominated products) in the ISDA CDS Standard Model (fair value).

- For single name Contracts, the EOD prices of the nine benchmark tenors will be used to create the corresponding implied hazard rate term structure. Standard industry recovery rates will also be used except for distressed names where the standard recovery rate cannot result in a consistent hazard rate term structure. In such case, a recovery rate will be used that is close to the standard recovery rate that can result in a consistent hazard rate term structure.

- For index Contracts, the implied hazard rates for the tenors available for clearing will be used to create an implied hazard rate term structure. Based on feedback requesting that ICC include the 3-year tenor of iTraxx Crossover and CDX High Yield index in determining the hazard rate term structure, ICC has been collecting daily prices for these instruments even though they are not clearing eligible. ICC clears the 3-year tenor of the CDX High Yield Index Series 35 and later only. ICC will review the reasonability of the price collection with its Risk Committee near the transition date to determine whether to use these tenors in determining the hazard term structures for iTraxx Crossover and CDX High Yield indexes.

- ICC will calculate an adjusted EOD valuation using the implied hazard rate term structure and the replacement discount rate term structure (e.g., SOFR for USD and €STR for EUR denominated products).

- The EOD valuation less the adjusted EOD valuation will be the adjustment amount.

- EOD London snapshots of EONIA and €STR interest rate curves and EOD New York snapshots of EFFR and SOFR interest rate curves published by ICE Data Services will be used for the discount rate term structures.<sup>10</sup>

<sup>6</sup> Additional information on the working group and the transition to €STR is available at: [https://www.ecb.europa.eu/paym/interest\\_rate\\_benchmarks/WG\\_euro\\_risk-free\\_rates/html/index.en.html](https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html).

<sup>7</sup> Id.

<sup>8</sup> Additional information on the ARRC and transition to SOFR is available at: <https://www.newyorkfed.org/arrc>.

<sup>9</sup> Id.

<sup>10</sup> The proposed methodology, which has been subject to substantial discussion and feedback from market participants, has also been coordinated with ICE Clear Europe. Based on feedback to achieve congruent adjustment amounts for positions at ICC and ICE Clear Europe, EOD valuations for North

<sup>5</sup> Capitalized terms used but not defined herein have the meanings specified in the Rules.

## Operational Process

ICC has defined the operational process for the one-time adjustment payments and corresponding collections. ICC will include the ad-hoc adjustments in CP EOD processing on Monday, June 14, 2021, which will be netted with other cash payments to determine Monday, June 14, 2021 EOD CP margin calls to be paid Tuesday, June 15, 2021. ICC will provide CPs and clients with position level adjustment details after EOD Friday, June 11, 2021 and prior to Monday, June 14, 2021. ICC will allow CPs to allocate adjustments at the level of individual house or client accounts. The proposed approach is intended to enable clients to reconcile adjustments they may receive from their CP. Further, ICC will provide CPs and clients the opportunity to review and consume relevant files as part of pre-transition simulations. One simulation was completed for March 26, 2021, and ICC plans to hold future simulations closer to the transition date.

## Market Participant Engagement and Outreach

The proposed transition has been discussed and coordinated by ICC with market participants, as well as with ICE Clear Europe, to achieve an orderly and efficient transition to the new rates. ICC has sought feedback from and engaged with market participants to determine the proposed approach throughout 2020 and 2021, including through the ICC Risk Committee and the ISDA Credit Steering Committee. In relation to CDS valuations, feedback has indicated a desire for one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates. The proposed one-time adjustment methodology, among other details, has been subject to substantial discussion and feedback from market participants.

ICC has made its proposed approach publicly available on its website<sup>11</sup> and issued a circular on the topic.<sup>12</sup> The proposed approach was approved by the ICC Board and is a product of the aforementioned consultation and governance processes. Based on the

significant outreach by ICC, ICC believes that market participants support ICC's approach for the transition. There were no substantive opposing views expressed on the transition or proposed approach.

## (b) Statutory Basis

ICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>13</sup> and the regulations thereunder applicable to it, including the applicable standards under Rule 17Ad-22.<sup>14</sup> In particular, Section 17A(b)(3)(F) of the Act<sup>15</sup> requires that the rule change be consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC, the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible, and the protection of investors and the public interest. As described above, the proposed rule change would transition the interest rates used for computing price alignment amounts and is in response to requests by industry participants in connection with the broader transition in the derivatives markets to the use of SOFR and €STR in lieu of existing interest rate benchmarks. The proposed transition would include one-time adjustment payments to be made to or from CPs to account for the reasonably expected valuation changes associated with the use of the new rates. The proposed transition has been discussed and coordinated by ICC with market participants to achieve an orderly and efficient transition to the new rates. In ICC's view, the proposed approach reduces uncertainty in respect of the transition and the potential impact of the interest rate benchmark reforms and reduces the potential for market disruption given the industry outreach and operational testing done by ICC. As such, the proposed rule change is consistent with the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible, and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.<sup>16</sup>

The amendments would also satisfy relevant requirements of Rule 17Ad-

22.<sup>17</sup> Rule 17Ad-22(e)(2)(i), (iii) and (v)<sup>18</sup> requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent; support the public interest requirements of Section 17A of the Act<sup>19</sup> applicable to clearing agencies, and the objectives of owners and participants; and specify clear and direct lines of responsibility. The proposed changes are in response to requests by industry participants. Such changes to transition the rates used for computing price alignment amounts on MTM Margin Balances, including one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates, were determined in accordance with ICC's governance process. ICC believes that the proposed approach reduces uncertainty in respect of the transition and the potential impact of the benchmark reforms and reduces the potential for market disruption given the industry outreach and operational testing done by ICC. ICC's governance process allows multiple stakeholders to provide input and feedback regarding such proposed rule changes. ICC has sought feedback from and engaged with market participants on the transition and the proposed approach is a product of the aforementioned consultation and governance processes. As such, ICC believes that the proposed rule change is consistent with the requirements of Rule 17Ad-22(e)(2)(i), (iii) and (v).<sup>20</sup>

Rule 17Ad-22(e)(4)(ii)<sup>21</sup> requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. The proposed rule change does not require any changes to ICC's Rules or written policies and procedures, including ICC's risk

American products will be taken from ICC's EOD process during its North American pricing window.

<sup>11</sup> A detailed presentation, titled ICE CDS Clearing MTM Interest Rates Transition, Initially posted and dated March 24, 2021 and updated April 8, 2021, is available at: [https://www.theice.com/publicdocs/ice/notifications/adhoc/110000348161/ICE\\_CDS\\_Clearing\\_PriceAlignmentTransition\\_20210324\\_v1.3\\_final.pdf](https://www.theice.com/publicdocs/ice/notifications/adhoc/110000348161/ICE_CDS_Clearing_PriceAlignmentTransition_20210324_v1.3_final.pdf).

<sup>12</sup> ICC Circular 2021/029, titled CDS MTM Margin Interest Rates Transition, dated April 8, 2021, is available at: [https://www.theice.com/publicdocs/clear\\_credit/circulars/Circular\\_2021\\_029.pdf](https://www.theice.com/publicdocs/clear_credit/circulars/Circular_2021_029.pdf).

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

<sup>14</sup> 17 CFR 240.17Ad-22.

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

<sup>16</sup> *Id.*

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

<sup>18</sup> 17 CFR 240.17Ad-22(e)(2)(i), (iii) and (v).

<sup>19</sup> 15 U.S.C. 78q-1.

<sup>20</sup> 17 CFR 240.17Ad-22(e)(2)(i), (iii) and (v).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

management methodology, model, or practices. Moreover, the proposed transition, including the approach and timing, has been discussed and coordinated by ICC with market participants to promote an orderly and efficient transition to the new rates. ICC will continue to maintain its financial resources and withstand the pressures of defaults, consistent with the requirements of Rule 17Ad–22(e)(4)(ii).<sup>22</sup>

Rule 17Ad–22(e)(17)<sup>23</sup> requires, in relevant part, each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to manage its operational risks by (i) identifying the plausible sources of operational risk, both internal and external, and mitigating their impact through the use of appropriate systems, policies, procedures, and controls; and (ii) ensuring that systems have a high degree of security, resiliency, operational reliability, and adequate, scalable capacity. ICC has defined the operational process and considerations for the proposed transition, including the one-time adjustment payments. ICC has publicized its process and planned for pre-transition simulations to promote preparedness among itself and market participants. Such actions enhance ICC's ability to identify relevant sources of operational risk and mitigate their impact in respect of the proposed transition and to ensure that systems have a high degree of security, resiliency, operational reliability, and adequate, scalable capacity. ICC believes that the proposed transition is appropriately designed to reduce operational complexity and sufficiently coordinated among ICC and market participants to achieve an orderly and efficient transition to the new rates. The proposed rule change is thus consistent with the requirements of Rule 17Ad–22(e)(17).<sup>24</sup>

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

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purpose of the Act. The proposed changes are in response to requests by industry participants in the context of the broader transition in interest rate benchmark rates and follow similar changes for other cleared swap products. Such changes are designed to

transition the interest rates used for computing price alignment amounts on MTM Margin Balances and include one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates. ICC has sought feedback from and engaged with market participants on the transition and the proposed approach is a product of the aforementioned consultation and governance processes. The proposed rule change will apply uniformly across all market participants. ICC does not believe the changes would adversely affect the ability of market participants to continue to clear contracts. ICC also does not believe the changes would adversely affect the cost of clearing or otherwise limit market participants' choices for selecting clearing services. Therefore, ICC does not believe the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purpose 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 and Timing for Commission Action**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>25</sup> and paragraph (f) of Rule 19b–4<sup>26</sup> 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–2021–012 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–2021–012. 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–2021–012 and should be submitted on or before May 19, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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<sup>22</sup> *Id.*

<sup>23</sup> 17 CFR 240.17Ad–22(e)(17)(i)–(ii).

<sup>24</sup> *Id.*

<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b–4(f)(1).

<sup>27</sup> 17 CFR 200.30–3(9)(12).