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Sarah Williams
Staff Attorney

January 13, 2015

Re: Revisions to the ICC Risk Management Framework Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6(a)

VIA E-MAIL
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 and Commodity Futures Trading Commission ("Commission") Regulation 40.6(a), a self-certification of revisions to the ICC Risk Management Framework to incorporate certain risk model enhancements. ICC is registered with the Commission as a derivatives clearing organization ("DCO"). ICC intends to make the Risk Management Framework revisions effective 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.

The proposed revisions to ICC's Risk Management Framework are intended to incorporate risk model enhancements related to Recovery Rate Sensitivity Requirements ("RRSR"), anti-procyclicality, and ICC's Guaranty Fund ("GF") allocation methodology. ICC also proposes revisions which are intended to remove obsolete references and ensure consistency. This submission includes a description of the ICC Risk Management Framework revisions. Certification of the revisions to the ICC Risk Management Framework pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC proposes revising its Risk Management Framework to incorporate risk model parameter estimation enhancements related to the RRSR computations. Under the current ICC Risk Management Framework, recovery rate stress scenarios are explicitly incorporated in the RRSR computations and for Jump-to-Default ("JTD") considerations. The quantity RRSR is designed to capture fluctuations due to potential changes of the market expected recovery rates. In calculating the RRSR, all instruments belonging to a Risk Factor ("RF") or Risk Sub-Factor ("RSF") are subjected to Recovery Rate ("RR") stress scenarios to obtain resulting Profit/Loss ("P/L") responses, and the worst scenario response is chosen for the estimation of the RF/RSF RRSR. The JTD analysis is designed to capture the unexpected potential losses associated with credit events for assumed SN-specific set of RR stress values. The JTD responses are determined by using minimum and maximum RR levels. Currently, the RRSR and JTD computations use the same RR stress levels.

ICC proposes separating the RR stress levels for these two computations in order to introduce more dynamic and appropriate estimations of the RR stress levels for RRSR purposes. The RR levels for RRSR purposes will reflect a 5-day 99% Expected Shortfall ("ES") equivalent risk measure associated with RR fluctuations. The proposal will also eliminate index RRSR, as index RRs are not subject to market uncertainty, but rather driven by market conventions. The dynamic feature of the RR stress level estimations is achieved by analyzing historical time series of RRs in order to calibrate a statistical model with a time varying volatility. Under this approach, the RRSR will capture the exposure to RR fluctuations over a 5-day risk horizon described by 99% ES equivalent risk measure. The proposed enhancements provide a robust and quantitative driven approach for establishing the RR stress scenarios.

Additionally, ICC proposes revising its Risk Management Framework to incorporate a portfolio level anti-procyclicality analysis that features price changes observed during and immediately after the Lehman Brothers ("LB") default. In order to achieve an anti-procyclicality of Spread Response requirements, ICC proposes considerations of explicit price scenarios derived from the greatest price decrease and increase during and immediately after the LB default. These scenarios capture the default of a major participant in the credit market and the market response to the event. The introduced scenarios are defined in price space to maintain the stress severity during periods of low credit spread levels (high price) when the Spread Response requirements, computed under the current framework, are expected to be lower.

Further, the price scenarios, derived from the greatest price decrease and increase during and immediately after the LB default, are explicitly incorporated into the GF sizing to ensure an anti-procyclical GF size behavior. This enhancement also addresses a regulatory requirement as described in Article 30 of the Regulatory Technical Standards[1], European Market Infrastructure Regulations ("EMIR").

Furthermore, ICC proposes enhancements to its GF allocation methodology. Currently, the GF allocations reflect a risk "silo" approach, i.e. separate GF "silo" components reflecting the Clearing Participants' ("CPs") own "silo" riskiness and to the GF "silo" size. Under the current approach, GF allocations can significantly fluctuate in response to position changes in the portfolios of the CPs that drive the GF size, and in response to distribution of the total GF size across the GF "silos". ICC proposes modifying its methodology, so that the GF allocations reflect the CPs' total uncollateralized losses. Under the proposed approach, the GF allocations are independent of the distribution of the uncollateralized losses across the GF "silos". The new GF allocation methodology reflects an improved and more stable approach which allows for easier attributions of GF contributions to individual CP/client portfolios. Additionally, ICC added clarifying language regarding how the GF computations are performed with explicit currency dependent expressions.

ICC has also made some non-substantive changes to the Risk Management Framework to address CFTC recommendations. Specifically, ICC proposes amending the Risk Management Framework to reflect ICC's current approach towards portfolio diversification. As such, ICC proposes unifying diversification and hedge thresholds, and explicitly setting both to be equal to the lowest estimated sector Kendall Tau correlation coefficient. Additionally, ICC clarified language regarding how ICC meets its liquidity requirements.

Additionally, ICC has made non-substantive changes throughout the framework to correct obsolete references. ICC removed language stating that the Chief Risk Officer is a dual employee of both ICC and its sister company, The Clearing Corporation. Similarly, ICC removed language stating that The Clearing Corporation is the provider of risk management services to ICC. ICC has removed references to the "U.K. Financial Services Authority" and replaced with reference to the "U.K. Prudential Regulatory Authority." "The European Securities and Markets Authority" was added to the sample list of competent authorities for capital adequacy regulation listed in the framework.

ICC has also made non-substantive changes throughout the Risk Management Framework to ensure consistency. ICC updated the mission statement contained within the document to be consistent with ICC's Board-approved mission statement. Also, ICC has modified the frequency by which the Risk Department monitors various risk metrics from a quarterly basis to a monthly basis to reflect actual business practices.

[1] Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 Supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to Regulatory Technical Standards on Requirements for Central Counterparties (the "Regulatory Technical Standards").

Core Principle Review:

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

Financial Resources: The revisions to the ICC Risk Management Framework are consistent with the financial resources requirements of Core Principle B.

Risk Management: The revisions to the ICC Risk Management Framework are consistent with the risk management requirements of Core Principle D.

Amended Rules:

The proposed change consists of revisions to the ICC's Risk Management Framework to incorporate risk model enhancements related to Recovery Rate Sensitivity Requirements ("RRSR"), anti-procyclicality, and ICC's Guaranty Fund ("GF") allocation methodology, and to remove obsolete references and ensure consistency. ICC has respectfully requested confidential treatment for the ICC Risk Management Framework which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the revisions to the ICC Risk Management Framework comply with the Act and the regulations thereunder. There were no substantive opposing views to the revisions.

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) 836-6883.

Sincerely,

Sarah Williams

Sarah Williams
Staff Attorney

cc: Kate Meyer, Commodity Futures Trading Commission (by email)
Tad Polley, Commodity Futures Trading Commission (by email)
Eric Nield, ICE Clear Credit (by email)
Michelle Weiler, ICE Clear Credit (by email)