

Sarah Williams
Compliance Manager

February 8, 2018

Re: Updates to ICC End-of-Day Price Discovery Policies and Procedures 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 changes to the ICC End-of-Day Price Discovery Policies and Procedures (“Pricing Policy”) related to the bid-offer width (“BOW”) methodology for Single Name instruments. 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 its Pricing Policy to enhance the methodology used to determine BOWs for Single Name instruments. This submission includes a description of the changes to the ICC Pricing Policy. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

Each business day, ICC determines end-of-day (“EOD”) levels through its established price discovery process, based on EOD submissions from its Clearing Participants. ICC uses these levels for mark-to-market and risk management purposes. As part of its price discovery process, ICC determines BOWs for each clearing-eligible instrument. The BOWs are then used in ICC’s price discovery process as inputs in the determination of EOD levels and Firm Trades.

The current methodology for determining BOWs for CDS instruments referencing a given Single Name reference entity is based on observed intraday bid and offer spread-levels for the most actively traded instrument (“MATI”) across the term structure and cleared coupons. ICC begins with a spread-based consensus BOW derived from intraday quotes for the MATI. This consensus BOW is then multiplied by a “scrape factor” to reflect any differences between the BOWs provided in intraday quotes and BOWs achieved in the market. Once the consensus BOW is determined, ICC applies various factors to the consensus BOW to reflect differences in instrument liquidity at longer and shorter maturities, and at higher and lower coupons. Scaling across maturities is performed in spread terms, while scaling of BOWs across coupons is performed in price terms. The transformations from spread to price are achieved using the ISDA Standard Model.

ICC is proposing to enhance the methodology for determining Single Name BOWs. The proposed enhancement eliminates the use of the ISDA Standard Model from the computation of Single Name

BOWs¹. ICC established its current BOW methodology at a time when it accepted submissions to its EOD price discovery process in both spread and price terms, at the discretion of its Clearing Participants. Since that time, ICC has enhanced its EOD price discovery process to accept Single Name submissions only in price terms, eliminating the need for spread-based BOWs. The proposed enhancement also determines BOWs consistently across Single Names on all reference entities, including those for which only sparse intraday data is available. Further, the enhancement extends the application of price-based BOW floors from the 0/3 month, 6 month and 1 year benchmark-tenors to the entire set of benchmark-tenors from 0 month to 10 years. Finally, the proposed enhancement introduces a dynamic feature that can widen BOWs in response to the observed dispersion of price-space mid-levels submitted in the EOD price-discovery process.

Under the proposed enhancement ICC will compute a consensus BOW, as described below, not only for the MATI as in the current methodology, but for each benchmark instrument. Rather than consensus BOWs being derived from intraday quotes, they will be computed as a price-based floor plus a relative BOW multiplied by the currently-observed level, where the currently-observed level is the average of price-space mid-levels submitted in the EOD price discovery process. The Risk Management Department will determine relative BOWs and price-based floors in consultation with the Trading Advisory Committee (“TAC”). The relative BOWs will reflect observed variability in SN levels for MATIs. The price-based floors will reflect BOWs established for Indices representing baskets of the most distressed SNs.

As stated above, ICC currently applies various factors to consensus BOWs to reflect differences in instrument liquidity at longer and shorter maturities, and at higher and lower coupons. Under the proposed enhancement, ICC will apply analogous factors to consensus BOWs. Specifically, to determine a systematic EOD BOW for each benchmark-instrument at the most-actively-traded coupon (“MATC”), ICC will apply tenor scaling-factors to the corresponding consensus BOWs. These tenor-scaling factors reflect the BOW of each tenor relative to the BOW of the most-actively-traded tenor. To determine the systematic EOD BOWs for each benchmark-instrument at other coupons, ICC will apply a combination of tenor scaling-factors and coupon scaling-factors to the corresponding consensus BOWs. The coupon scaling-factors reflect increased BOWs at coupons larger or smaller than the MATC. The tenor and coupon scaling factors will be set by the ICC Risk Management Department, in consultation with the TAC, to reflect ratios of observed variability in SN levels at the MATI and at a given tenor / coupon. As with the current methodology, once all applicable factors have been applied, ICC will then apply the appropriate Single Name variability factor², resulting in the final systematic BOWs.

Under the proposed enhancement, ICC will determine the final EOD BOWs as the greater of an instrument’s systematic BOW, and a dynamic BOW established for the instrument. The dynamic BOW is the dispersion of price-space mid-levels submitted to the EOD price-discovery process for the given instrument.

ICC proposes revisions to the Governance section of the Pricing Policy to note that under the proposed approach, the responsibilities of the ICC Risk Management department include determining the price-based floors, relative BOWs, tenor scaling factors, and coupon scaling factors used to establish BOWs. ICC also proposes generalizing language to note that the ICC Risk Management Department is responsible for ensuring that appropriate EOD levels are determined. ICC proposes to remove references to scrape factors, which under the current approach are applied to consensus BOWs determined from intraday quotes “scraped” from trader emails, but are not applicable under the proposed approach in which the determination of consensus BOWs does not involve “scraped” intraday quotes. ICC also

¹ Note that the ISDA Standard Model is not used in ICC’s methodology for determining BOWs for Index instruments, and that the proposed enhancements do not change ICC’s methodology for determining BOWs for Index instrument.

² The Single Name variability factor is an existing feature of the system, used to widen Single Name BOWs in response to the variability of intraday quotes. See Submission Number 1706-2015-1339-84, dated June 20, 2017. The text of this submission can be found on ICC’s website at <https://www.theice.com/clear-credit/regulation>.

proposes to add clarification that parameters used in the EOD price discovery process are established by the ICC Risk Management Department in consultation with the TAC.

ICC proposes a revision to note that under the proposed approach, the TAC will review and provide input on revisions to BOW price-based floors. ICC proposes to remove reference to the TAC's review of scrape factors, which are not applicable under the proposed approach.

ICC proposes clarifying changes to the Pricing Policy. ICC proposes adding a clarifying footnote regarding ICC's use of the ISDA Standard Model. To improve clarity, ICC proposes to remove a sentence summarizing the inputs used by ICC to determine EOD BOWs for Single Name and index instruments, as these inputs are described in detail elsewhere in the document. ICC proposes a revision to note that trading desks at each self clearing member ("SCM") are requested to copy ICC on the intraday quotes they provide market participants via email. ICC proposes removing outdated references regarding the computation of Single Name consensus BOWs. ICC proposes a revision to correct a typographical error by including the adjustment of trade levels to limit profit/loss impact (if required), in a list of "cross-and-lock" algorithm components. ICC proposes a clarifying edit to note that, for a given index, the EOD BOWs are computed based on the consensus BOW of the on-the-run instrument. ICC also proposes minor updates to the times of various end-of-day processes for different settlement windows, to reflect current practice. Finally, ICC proposes updates to section numbering and correction of a typographical error in a heading.

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:

Settlement Procedures: The revisions to the Pricing Policy are consistent with the settlement procedures requirements of Core Principle E, as the proposed revisions allow for an enhanced methodology for determining Single Name BOWs, based on a function of the observed and submitted EOD levels. Following such changes, ICC will continue to maintain a robust EOD price discovery process, which includes the determination of EOD pricing levels and Firm Trade determinations.

Risk Management: The revisions to the Pricing Policy are consistent with the risk management requirements of Core Principle D, as the proposed revisions assist ICC in ensuring it maintains market appropriate BOWs, which are used as an input in the determination of end-of-day levels, which are used for risk management purposes.

Amended Rules:

The proposed changes consist of changes to the ICC Pricing Policy. ICC has respectfully requested confidential treatment for the ICC Pricing Policy, which was submitted concurrently with this self-certification submission.

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) 836-6883.

Sincerely,

A handwritten signature in black ink that reads "Sarah Williams". The signature is written in a cursive style with a large initial 'S' and a long horizontal stroke at the end.

Sarah Williams
Compliance Manager