

Maria Zyskind
Staff Attorney

April 23, 2019

Re: Updates to ICC Model Validation Framework Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6(a)

VIA ELECTRONIC PORTAL

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 (the “Act”) and Commodity Futures Trading Commission (“Commission”) Regulation 40.6(a), a self-certification of changes to the ICC Model Validation Framework. 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 the ICC Model Validation Framework. This submission includes a description of the changes to the ICC Model Validation Framework. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The Model Validation Framework sets forth ICC’s model validation procedures. Through the model validation procedures, ICC determines the appropriateness of changes to the risk modeling components (“Model Components”) of ICC’s risk management system and the appropriateness of the configuration and calibration of ICC’s risk management system. ICC’s proposed changes consist of clarification updates related to the classification of Model Components, documentation requirements, the priority scale used by independent validators, and the annual validation of Model Components and related practices.

ICC proposes to revise the ‘Risk Management System Models’ section to account for Model Components that are no longer utilized. Currently, the Model Validation Framework notes new Model Components, which consider risk drivers that are not currently included in the risk management system, and enhancements to Model Components, which improve upon the methodologies used by the risk management system to consider a given risk driver or drivers (collectively, “Model Change”). ICC proposes to amend the Model Validation Framework to also consider retired Model Components, which are no longer utilized in the risk management system.

In the ‘Model Change Qualification and Materiality’ section, ICC proposes to include a quantitative measure to define certain Model Changes. ICC classifies Model Changes as either Materiality A or Materiality B, depending on how substantially the Model Change affects the risk management system’s assessment of risk for the related risk driver or drivers. ICC proposes to characterize any Model Change that leads to a decrease/increase of the total pre-funded financial resources over a certain percentage as a Materiality A Model Change.

The proposed revisions to the 'Documentation Requirements' section relate to the Model Inventory, which is maintained by the ICC Risk Department and contains key information about all Model Components and Model Changes. The Model Validation Framework specifies documentation requirements for the type of information maintained in the Model Inventory. ICC proposes updates to the documentation requirements to include retired Model Components and to remove information considered not relevant for purposes of the Model Inventory.

The proposed updates to the 'Independent Initial Validation' section relate to the priority scale used by independent validators. The Model Validation Framework requires independent initial validators to classify their findings based on a priority scale, consisting of high, medium, and low priority ratings. ICC proposes to amend the low priority rating to allow ICC, in consultation with the Risk Committee, to take no action with respect to the corresponding item if it does not reflect a potential deficiency.

ICC proposes clarifying changes to the 'Independent Periodic Review' section. ICC proposes to include additional information regarding how it tracks the annual validation of Model Components and related practices. The proposed changes specify that independent validators perform periodic reviews of Model Components and related practices at least every twelve months and that ICC relies on the date of the engagement letter to track this twelve month requirement. As part of the independent periodic review, the Model Validation Framework also directs independent validators to classify their findings based on the priority scale. ICC proposes amendments to the low priority rating to note that corresponding items may reflect deficiencies that create immaterial risks and that ICC, in consultation with the Risk Committee, may take no action with respect to the corresponding item if it does not reflect a potential deficiency.

Core Principle Review:

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

Financial Resources: The revisions to the ICC Model Validation Framework are consistent with the financial resources requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The Model Validation Framework provides assurances as to the suitability of changes to Model Components and the appropriateness of the configuration and calibration of ICC's risk management system, including the appropriateness of risk requirements. The proposed changes to the Model Validation Framework provide additional detail and transparency regarding ICC's model validation procedures which support ICC's ability to maintain sufficient risk requirements. Namely, the Model Validation Framework enhances ICC's approach to identifying potential weaknesses in the risk management system by requiring ICC to review and improve its risk management system, including through the use of independent initial and annual validations, thereby ensuring that ICC continues to maintain sufficient financial resources to withstand, at a minimum, the default of the two Clearing Participant Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions, consistent with the requirements of Commission Regulation 39.33.

Risk Management: The changes to the ICC Model Validation Framework are consistent with the risk management requirements of Core Principle D and Commission Regulation 39.36(e). The proposed changes to the Model Validation Framework require independent validators to perform periodic reviews of Model Components and related practices at least every twelve months and include additional detail regarding tracking the annual validation of Model Components and related practices, thereby ensuring that ICC perform, on an annual basis, an independent validation of ICC Model Components and related practices, consistent with the requirements of Commission Regulation 39.36(e). Such procedures serve to promote the soundness of ICC's risk management model and system and ensure that ICC possesses the ability to manage the risks associated with discharging its responsibilities, consistent with the risk management requirements of Core Principle D.

Amended Rules:

The proposed changes consist of changes to the ICC Model Validation Framework. ICC has respectfully requested confidential treatment for the ICC Model Validation Framework, 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) 836-6854.

Sincerely,

A handwritten signature in cursive script that reads "Maria Zyskind".

Maria Zyskind
Staff Attorney