

Maria Alarcon
Staff Attorney

August 10, 2020

Re: Updates to ICC Risk Management Model Description 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 Risk Management Model Description.¹ 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 Risk Management Model Description. This submission includes a description of the changes to the ICC Risk Management Model Description. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC proposes to revise the ICC Risk Management Model Description in connection with its proposed launch of the clearing of credit default index swaptions ("Index Swaptions").² ICC has previously filed with the Commission changes to certain other policies and procedures related to the clearing of Index Swaptions (the "Swaption Rule Filings").³ As set out in the Swaption Rule Filings, ICC intends to adopt or amend certain related policies and procedures in preparation for the launch of clearing of Index Swaptions and does not intend to commence clearing of Index Swaptions until ICC is permitted under Commission regulation to implement the changes described in all such policies and procedures. Accordingly, ICC proposes to make such changes to the Risk Management Model Description effective after ICC is permitted under Commission regulation to implement the changes described in all such policies and procedures and ICC completes its governance process surrounding the Index Swaptions product expansion.

As discussed in the Swaption Rule Filings, pursuant to an Index Swaption, one party (the "Swaption Buyer") has the right (but not the obligation) to cause the other party (the "Swaption Seller") to enter into an index credit default swap transaction at a pre-determined strike price on a specified expiration date on specified terms. In the case of Index Swaptions that would be cleared by ICC, the underlying index credit

¹ Capitalized terms used but not defined herein have the meanings specified in the Rules.

² Index Swaptions are also referred to herein and in the Risk Management Model Description as "index options" or "index CDS options", or in similar terms.

³ Submission Number 1907-1516-4754-53, dated July 15, 2019; Submission Number 2001-1415-3739-55, dated January 14, 2020; Submission Number 2006-1815-5824-31, dated June 18, 2020.

default swap would be limited to certain CDX and iTraxx Europe index credit default swaps that are accepted for clearing by ICC, and which would be automatically cleared by ICC upon exercise of the Index Swaption by the Swaption Buyer in accordance with its terms.

The proposed changes amend the Risk Management Model Description to incorporate a stochastic implied mean absolute deviation (“MAD”) feature in connection with the proposed launch of the clearing of Index Swaptions and make certain other minor clarification changes. The proposed amendments would modify Section VII of the Risk Management Model Description to add a subsection on stochastic implied MAD modeling. In the Swaption Rule Filings, ICC proposed to modify the integrated spread response component of the margin model to incorporate an options-implied credit spread distribution, which includes a scale parameter related to the MAD implied from swaption prices (“implied MAD”).⁴ ICC proposes enhancements to its approach to feature a stochastic implied MAD, which presents a more advanced risk modeling technique for option instruments in rapidly changing market conditions and high-volatility market environments. Currently, the model assumes a static implied MAD formulation where the implied MAD scale does not change in response to the simulated underlying index levels.

Under the proposed changes, the risk methodology for clearing Index Swaptions would consider the risk arising from the joint fluctuations of the underlying index levels and the options implied MAD scales in proposed Subsection VII.3. ICC would identify and describe the distribution that the changes of the implied MAD scales associated with each option expiry follow. ICC would also discuss and provide the rationale for its selected parameter estimation approach. Specifically, ICC would set out how the distribution parameters are estimated for a set of implied MAD changes. The proposed changes further explain how ICC models the joint fluctuations of the underlying index levels and the options implied MAD scales. Proposed Figure 12 illustrates the simulation approach and is thus intended to replace Figure 11 in Subsection VII.2.2 that ICC proposes to remove. Relatedly, in Subsection VII.5.1.1 with respect to instrument profit/loss (“P/L”) estimations for Index Swaptions, ICC proposes to add reference to notations related to the stochastic implied MAD from proposed Subsection VII.3.

ICC also proposes other minor clarification changes to the Risk Management Model Description. ICC propose to reference the clearinghouse in Subsection III.6 when describing where certain data is obtained and to abbreviate a term in Subsection VI.2. Given the addition of Subsection VII.3, ICC proposes to renumber the subsections in Section VII accordingly. ICC further proposes clarifications to a formula and its notes in Subsection VII.5.1.2 regarding risk factor P/L estimations, including with respect to the description of an alternative option position P/L computation, subsequent risk estimations and the addition of certain payments to portfolio requirements.

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 Risk Management Model Description are consistent with the financial resources requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The proposed changes would enable a stochastic implied MAD feature in the Risk Management Model Description in connection with the proposed launch of the clearing of Index Swaptions. Under the proposed changes, the risk methodology for clearing Index Swaptions would consider the risk arising from the joint fluctuations of the underlying index levels and the options implied MAD scales. ICC believes that the proposed changes support and enhance its ability to manage its financial resources as such feature presents a more advanced risk modeling technique for option instruments in rapidly changing market conditions and high-volatility market environments. Additionally, the proposed clarification changes provide further clarity and transparency regarding ICC’s risk management practices to strengthen the documentation surrounding ICC’s risk methodology, including the incorporation of a reference to the clearinghouse in Subsection III.6 when describing where certain data is obtained and the clarifications to a formula and its notes in Subsection VII.5.1.2. As such, the

⁴ Submission Number 2001-1415-3739-55, dated January 14, 2020.

proposed amendments would strengthen ICC's ability to maintain its financial resources and withstand the pressures of defaults. As such, ICC will continue to maintain sufficient financial resources to withstand, at 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 amendments to the ICC Risk Management Model Description are consistent with the risk management requirements of Core Principle D and the risk management requirements set forth in Commission Regulations 39.13 and 39.36. As discussed above, ICC proposes to modify the Risk Management Model Description to add a subsection on stochastic implied MAD modeling. In contrast to the static implied MAD formulation where the implied MAD scale does not change in response to the simulated underlying index levels, the stochastic implied MAD approach considers the joint fluctuations of the underlying index levels and the options implied MAD scales in proposed Subsection VII.3. Such feature presents a more advanced risk modeling technique for option instruments in rapidly changing market conditions and high-volatility market environments. The proposed clarification changes would further ensure readability and transparency with respect to ICC's risk methodology and practices in the Risk Management Model Description to ensure that it remains up-to-date, clear, and transparent to support the effectiveness of ICC's risk management system. ICC believes that the amendments would 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. ICC's risk management practices will also continue to be performed in accordance with the standards and practices set forth in Commission Regulations 39.13 and 39.36.

Amended Rules:

The proposed changes consist of changes to the ICC Risk Management Model Description. ICC has respectfully requested confidential treatment for the ICC Risk Management Model Description, 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,



Maria Alarcon
Staff Attorney