

Sarah Williams
Staff Attorney

September 13, 2017

Re: Updates to ICC Stress Testing Framework and ICC Liquidity 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 changes to the ICC Stress Testing Framework and ICC Liquidity Risk Management 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 to update its Stress Testing Framework and Liquidity Risk Management Framework. Specifically, ICC proposes changes to enhance ICC’s stress testing and liquidity stress testing practices following the clearing of Single Name (“SN”) credit default swaps (“CDS”) referencing ICC Clearing Participants (“CPs”). ICC also proposes changes to the Stress Testing Framework to enhance compliance with Commission regulations including 17 CFR 39.36. This submission includes a description of the changes to the ICC Stress Testing Framework and ICC Liquidity Risk Management Framework. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

Stress Testing Framework

ICC proposes changes to its Stress Testing Framework following clearing of SN CDS referencing ICC CPs. ICC proposes amendments to the ‘Predefined Scenarios’ section of the Stress Testing Framework to amend scenarios classified as Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios to incorporate additional losses related to the Expected Loss-Given-Default (“ELGD”) of all CDS reference entities not explicitly assumed to enter a state of default in a CP’s portfolio, and not limited to those in the Banking or Sovereign sectors. The ELGD amount will accumulate the LGD of all of the SNs in the portfolio that do not explicitly enter a state of default, weighted by the market observed 1-year end-of-day Default Probability¹.

In addition, ICC proposes to incorporate an enhanced analysis into the ‘General Wrong Way Risk and Contagion Stress Tests’ section of the Stress Testing Framework that estimates profits and losses (“P/L”) arising from general wrong way risk (“GWWR”) generated by index and SN Risk Factors (“RFs”) that

¹ “Default Probability” as referenced throughout the ICC Stress Testing Framework and ICC Liquidity Risk Management Framework is calculated using the Open Source ISDA CDS Standard Model (available at <http://www.cdsmodel.com/cdsmodel/>).

exhibit high degree of association with CPs. All positions in the index and SN CDS instruments are used to construct for each CP a hypothetical sub-portfolio subject to an additional stress test analysis. Under the proposed analysis, if the constructed sub-portfolio presents GWWR stemming from positions in SN RFs that belong to the Banking and Sovereign Sectors, additional GWWR related stress losses, deemed to be 'extreme but plausible', will be added. These additional GWWR losses are computed as the product of the correlation-weighted uncollateralized LGDs and the SN-specific Default Probabilities. The proposed analysis is based on ICC's current GWWR P/L calculation, but assumes that the GWWR Kendall-Tau correlation (currently the greatest of the estimate from the full historical time series, the immediate 250 observations prior to the analysis date, or the 250 observations associated with a relevant stress period) of each CP-Sovereign or Banking RF pair are assumed to approach one, modeling the simultaneous occurrence of losses. The Default Probabilities utilized under the proposed approach will reflect the greater of the average 1-year CP SN Default Probability and the Default Probability implied by a 500-bp spread level at the 1-year tenor.

Further, ICC proposes moving the current contagion GWWR P/L calculation from the 'Methodology' section to the 'General Wrong Way Risk and Contagion Stress Tests' section of the framework. ICC proposes adding language to the description of the current contagion GWWR P/L calculation, consisting of the correlation-weighted uncollateralized LGDs, to clarify that such scenario is considered extreme (as opposed to extreme but plausible). The extreme scenario is for information purposes only.

ICC proposes adding a new 'Guaranty Fund Sizing Sensitivity Analysis' section to the Stress Testing Framework, which describes ICC's approach to Guaranty Fund ("GF") sizing. ICC's GF model aims to establish financial resources that are sufficient to cover hypothetical losses associated with the simultaneous credit events where up to five SNs are impacted. Currently, two of the selected SNs are CP SNs (i.e., "cover-2" GF sizing) and the other three SNs are non-CP SNs. ICC proposes amending the framework to add an additional combination of impacted five SNs, for monitoring and comparison purposes. Specifically, ICC proposes analyzing three CP SNs (i.e., "cover-3" GF sizing) and two non-CP SNs. This alternative combination analysis is intended to provide guidance to the ICC Risk Department and ICC Risk Committee in situations when changes to the GF sizing approach are considered. For example, if a cover-2 deficiency is observed under the current GF size configuration, ICC will analyze the results from the cover-3 analysis as a potential remedy to address the cover-2 deficiency. Monthly summary reports detailing the analysis will be provided to the ICC Risk Committee.

ICC also proposes changes to the Stress Testing Framework to ensure compliance with Commission Regulation 17 CFR 39.36. Specifically, ICC proposes adding an 'Interest Rate Sensitivity Analysis' section to the Stress Testing Framework to ensure compliance with Commission Regulation 17 CFR 39.36(b). Under the proposed analysis, ICC would shock the Euro and USD interest rate curves up and down to see which scenario lead to further erosion of the GF under the two worst spread based stress test scenarios. The addition of the interest rate sensitivity analysis will have no impact on ICC's GF sizing methodology. ICC also proposes changes to the 'Methodology' section of the Stress Testing Framework related to the calculation of the P/L attributable to sequential or simultaneous defaults, to ensure compliance with 17 CFR 39.36(a). Under the current framework, for each CP Affiliate Group ("AG"), the Specific Wrong Way Risk ("SWWR") P/L shows losses associated with positions that are self referencing to that CP AG; the remaining GF is then calculated for each CP AG. Under the proposed changes, the SWWR P/L will be expanded to also reflect the accumulation of losses associated with defaulted CP specific exposure and re-labeled "CP-WWR P/L", where the new CP-WWR P/L for each CP AG will include losses associated with exposure to itself, i.e. SWWR P/L, as well as on previously defaulted CP AG(s). Finally, ICC proposes edits to the 'Portfolio Selection' section of the Stress Testing Framework, to incorporate a description of ICC's current client stress testing practices. There are no changes being proposed to ICC's client stress testing practices; rather the proposed edits are designed to explicitly state and document ICC's current client stress testing practices. Specifically, ICC applies the stress test scenarios to all currently cleared portfolios consisting of a CP's House and/or Client accounts. ICC executes individual client legal entity stress testing at least monthly, and the results are reported on a monthly basis to the ICC Risk Committee. The clients selected for analysis exhibit the largest stress loss over financial resources being tested for each of the top Futures Commission Merchants ("FCMs") and

Broker Dealers (“BDs”) with the largest client Initial Margin. This selection is designed to capture the clients with the largest risk exposure, who are deemed to be “large traders.”

Liquidity Risk Management Framework

ICC proposes revisions to its Liquidity Risk Management Framework to ensure unification of the stress testing scenarios in the Liquidity Risk Management Framework and the Stress Testing Framework. ICC operates its stress testing and liquidity stress testing on a unified set of stress testing scenarios and system. As such, revisions to the liquidity stress testing scenarios are necessary to ensure scenario unification, in light of the proposed changes to the stress testing scenarios related to ICC’s clearing of SN CDS on its CPs.

Specifically, ICC proposes to revise the “Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios” to ensure consistency with the proposed changes to the Stress Testing Framework to incorporate additional losses related to the ELGD of all names in a CP’s portfolio, not limited to those in the Banking or Sovereign sectors. The ELGD amount will accumulate the LGD of all of the SNs in the portfolio that do not explicitly enter a state of default, weighted by the market observed 1-year end-of-day Default Probability.

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 changes to the ICC Stress Testing Framework are consistent with the financial resource requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The changes to ICC’s Stress Testing Framework enhance and clarify ICC’s stress testing practices, which are designed to ensure the adequacy of systemic risk protections and to ensure that ICC maintains sufficient financial resources to withstand, at a minimum, the default of the two CP Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions. The changes to the Liquidity Risk Management Framework are consistent with the financial resources requirements of Core Principle B and the requirements of Commission Rule 39.33 thereunder. The changes to the Liquidity Risk Management Framework to unify the liquidity stress testing scenarios with the stress testing scenarios set forth in Stress Testing Framework are necessary given the proposed changes to the Stress Testing Framework, as ICC operates its stress testing and liquidity stress testing on a unified set of stress testing scenarios and system. ICC’s liquidity stress testing practices will continue to ensure the sufficiency of ICC’s liquidity resources.

Risk Management: The changes to the ICC Stress Testing Framework are consistent with the risk management requirements of Core Principle D and the risk management requirements set forth in Commission Regulation 39.36. The Stress Testing Framework sets forth the methodology by which ICC evaluates potential portfolio profits/losses, compared to the Initial Margin and GF funds maintained, in order to identify any potential weakness in the risk methodology. The proposed changes to the Stress Testing Framework enhance and clarify ICC’s approach to identifying potential weaknesses in the risk methodology. The changes to the ICC Liquidity Risk Management Framework are consistent with the risk management requirements of Core Principle D and Commission Rules 39.13 and 39.36. ICC’s liquidity stress testing practices will continue to be performed in accordance with the standards and practices set forth in Commission Rules 39.13 and 39.36.

Amended Rules:

The proposed change consists of changes to the ICC Stress Testing Framework and ICC Liquidity Risk Management. ICC has respectfully requested confidential treatment for the ICC Stress Testing Framework and ICC Liquidity Risk Management 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) 836-6883.

Sincerely,

A handwritten signature in cursive script that reads "Sarah Williams". The signature is written in black ink and is positioned below the word "Sincerely,".

Sarah Williams
Staff Attorney