

Maria Zyskind
Staff Attorney

October 1, 2018

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 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 Stress Testing Framework and the 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 revising the ICC Stress Testing Framework and the ICC Liquidity Risk Management Framework. This submission includes a description of the changes to the ICC Stress Testing Framework and the 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.

ICC proposes revising its Stress Testing Framework and its Liquidity Risk Management Framework. Specifically, ICC proposes clarifying changes regarding current aspects of its stress testing and liquidity stress testing practices to address comments received from independent validations, as well as additional clean-up changes. The independent validator comments revolve around clarification updates that do not change ICC’s current stress testing and liquidity stress testing practices. ICC’s proposed changes to address the independent validator comments include updates to correct inconsistencies between section numbering and the table of contents, ensure that scenarios are categorized consistently across the ICC Stress Testing Framework and the ICC Liquidity Risk Management Framework, define potentially unclear terminology, and clarify or include additional detail relating to potentially ambiguous phrases or text such that ICC’s documentation provides a clearer view of its stress testing and liquidity stress testing practices. The proposed revisions are described in detail as follows.

Stress Testing Framework

ICC proposes revisions to the Stress Testing Framework to address independent validator comments and to make clarification and clean-up changes to enhance readability. ICC proposes clean-up changes to the Table of Contents to add two sections, which are not new to the document, but were previously excluded from the Table of Contents. ICC also proposes, for clarity, updates to the ‘Overview’ section to abbreviate “Risk Committee” to “RC.” ICC proposes corresponding changes throughout the document.

ICC proposes amendments to the 'Predefined Scenarios' section of the Stress Testing Framework. ICC proposes to divide the predefined scenarios into four categories. Previously, the Stress Testing Framework divided the predefined scenarios into three categories by combining the Historically Observed Extreme but Plausible Market Scenarios: Severity of Losses in Response to a Baseline Credit Event and the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios into one category. ICC proposes to separate these scenarios into two categories to maintain uniformity throughout the Stress Testing Framework since each represents a distinct sub-section in the 'Predefined Scenarios' section of the Stress Testing Framework. Additionally, ICC proposes to categorize the Discordant Spread Scenarios (i.e., scenarios designed to reproduce significant discordant outcomes during the considered period) and the Opposite Discordant Spread Scenarios (i.e., scenarios constructed using the opposite discordant outcomes to those observed during the considered period) as Historically Observed Extreme but Plausible to ensure consistency with the scenarios classified as Historically Observed Extreme but Plausible in the Liquidity Risk Management Framework, which include the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios.

ICC proposes clarifying changes to the 'Display of Discordant Behavior among Instrument Groups' section. ICC proposes to more clearly define discordant change as discordant relative spread move. ICC proposes to add clarifying language to define the market depth of sovereign reference entities in terms of the observed weekly trading volumes from the Depository Trust & Clearing Corporation ("DTCC"). In addition, ICC proposes to include language to clarify that the historical period selected to represent the greatest combined discordant change for sovereign reference entities can be different from the one selected for corporate single names ("SNs").

ICC proposes enhancements to the 'Reverse Stress Testing: Guaranty Fund Adequacy Analysis' section to provide additional clarity regarding how ICC performs such analysis. Specifically, ICC proposes to add explanatory language to note that, upon the simultaneous default of two Clearing Participant ("CP") affiliate groups ("AGs"), ICC considers additional adverse spread realizations and idiosyncratic credit events associated with reference obligations on which the stress tested CP sold protection.

ICC proposes enhancements to the 'Interest Rate Sensitivity Analysis' section to further clarify its analysis. To avoid confusing interest rate shocks as haircuts, ICC proposes to clarify that interest rate shocks used for stress testing are based on interest rate shocks observed during historical periods used to estimate haircuts.

ICC proposes clarification changes to the 'Guaranty Fund Sizing Sensitivity Analysis' section. ICC's Guaranty Fund ("GF") model aims to establish financial resources that are sufficient to cover hypothetical losses associated with the simultaneous credit events where up to five SN Risk Factor Groups ("RFGs")¹ are impacted. In that, two of the selected SN RFGs are CP AGs (i.e., Cover-2 GF sizing) and the other three RFGs are non-CP RFGs. Under the alternative combination, three of the selected SN RFGs are CP AGs (i.e., Cover-3 GF sizing) and the other two RFGs are non-CP RFGs. Given that two or three of the selected SN RFGs are CP AGs, ICC proposes to provide specific reference to CP AGs when referring to Cover-2 and Cover-3 GF sizing. ICC proposes corresponding changes throughout the document when referencing Cover-2 and Cover-3.

ICC proposes updates to the 'Interpretation of Results' section. For clarity, ICC proposes revisions to specify when it assesses Cover-2 in terms of two CP AGs generating the largest uncollateralized stress losses (i.e., stress losses over their corresponding financial resources) versus two CP AGs generating the largest consumption of the GF. ICC proposes incorporating the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios in its list of Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios to ensure consistency with the Historically Observed Extreme but Plausible Scenarios set forth in the Liquidity Risk Management Framework, which include the Discordant Spread Scenarios and the Opposite Discordant Spread Scenarios. In addition, ICC proposes to further clarify the role of large position requirements, noting that large position requirements, although initially

¹ ICC deems each SN reference entity a Risk Factor. ICC deems a set of SN Risk Factors related by a common parental ownership structure a RFG.

excluded, are included in the available total margin used to cover hypothetical losses from stress test results.

ICC proposes amending the 'Post-Stress Testing Review & Governance Structure' section to more clearly reflect the ICC Risk Department's reporting and stress testing obligations. The proposed changes clarify that, for each considered stress scenario, the ICC Risk Department creates and reviews stress testing results for all applicable CP AGs. The proposed changes further specify which scenarios are provided weekly for reporting purposes and which are provided monthly to the Risk Committee. The proposed changes also note the ICC Risk Department's reporting obligation if deficiencies are uncovered during analysis of certain Cover-2 stress scenarios, along with the ICC Risk Department's obligation to execute stress testing regularly for all CP AGs.

Liquidity Risk Management Framework

ICC proposes revisions to its Liquidity Risk Management Framework to make clean-up changes and clarification changes in response to independent validator comments. Specifically, ICC proposes to revise the 'Discordant Scenario' sub-section to more clearly define discordant change as discordant relative spread move. In addition, consistent with the Stress Testing Framework, ICC proposes modifying the 'Required Analysis' section to more clearly reflect the ICC Risk Department's reporting and stress testing obligations. ICC proposes to note that, for each considered stress scenario, the ICC Risk Department executes stress testing daily for all applicable CP AGs. ICC also proposes to specify which scenarios are provided weekly for reporting purposes and which are provided monthly to the Risk Committee.

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 Stress Testing 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 proposed changes to ICC's Stress Testing Framework 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 AGs to which it has the largest exposure in extreme but plausible market conditions. The changes to the ICC Liquidity Risk Management Framework are consistent with the financial resources requirements of Core Principle B and the requirements of Commission Regulation 39.33 thereunder. The changes to the ICC Liquidity Risk Management Framework provide additional clarity regarding ICC's liquidity stress testing practices. ICC's liquidity stress testing practices will continue to ensure the sufficiency of ICC's liquidity resources.

Risk Management: The revisions 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 ICC 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 ICC Stress Testing Framework clarify ICC's stress testing approach. The changes to the ICC Liquidity Risk Management Framework are consistent with the risk management requirements of Core Principle D and Commission Regulations 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 Regulations 39.13 and 39.36.

Amended Rules:

The proposed changes consist of changes to the ICC Stress Testing Framework and the ICC Liquidity Risk Management Framework. ICC has respectfully requested confidential treatment for the ICC Stress

Testing Framework and the ICC Liquidity Risk Management Framework, which were 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