



**Maria Alarcon**  
Staff Attorney

October 7, 2021

**Re: Updates to ICC Stress Testing Framework and Formalization of ICC Indirect Participant Risk Monitoring and Review Policy 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 21<sup>st</sup> 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 to amend the Stress Testing Framework and to adopt and formalize the Indirect Participant Risk Monitoring and Review Policy (“Indirect Participant Risk Policy”). 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 amend the Stress Testing Framework and to adopt and formalize the Indirect Participant Risk Policy. This submission includes a description of the changes to the Stress Testing Framework and a description of the Indirect Participant Risk Policy. Certification of the changes to the Stress Testing Framework and of the Indirect Participant Risk Policy pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The proposed amendments to the Stress Testing Framework include clarifications on the stress testing practices of ICC and reference the Indirect Participant Risk Policy. The proposed Indirect Participant Risk Policy describes the monitoring and review of risk arising from and relating to indirect participants, which are the underlying clients of ICC’s Clearing Participants (“CPs”). The proposed revisions are described in detail as follows.

**I. Stress Testing Framework**

The revisions to the Stress Testing Framework are intended to clarify ICC’s stress testing practices and include minor clean-up changes. The proposed changes abbreviate various terms throughout the document, starting in Section 2. Regarding the stress test methodology in Section 3, ICC would define financial resources as available funds from the Initial Margin requirements and Guaranty Fund contributions related to the selected portfolios in a footnote, and make minor conforming terminology changes in the text regarding the analyzed Initial Margin requirements. A proposed appendix with details on ICC’s stress test methodology would be referenced throughout the amended document, specifically in Sections 3, 5, and 13. Proposed footnotes in Subsection 5.1 contain formulas that provide further definition regarding certain historically observed extreme but plausible market scenarios. The proposed amendments to Section 12 specify that client stress testing is executed daily (rather than “at least monthly”) and reference the Indirect Participant Risk Policy for further details. In Section 14, ICC proposes a grammatical update to make



“meeting” plural and to memorialize that the Stress Testing Framework is subject to review by the Risk Committee and review and approval by the Board at least annually. ICC proposes to include the Indirect Participant Risk Policy as a reference in Section 15.

ICC proposes new Section 16 as an appendix, which is intended to provide more detail and clarity on ICC’s stress test methodology and would not change the methodology. The proposed appendix defines key terms and sets out underlying formulas and equations used for stress testing. Key terms include Stress Testing Profit/Losses, which represent the CP portfolio hypothetical response to the considered stress testing scenarios. Moreover, the appendix explains the determination of the order of defaulting CP Affiliate Groups (“AGs”) in order to establish if the available financial resources are sufficient to cover hypothetical losses associated with the two greatest CP AG uncollateralized stress losses and discusses the consideration given to wrong way risk exposure. Finally, the appendix details how ICC determines if the available financial resources are sufficient to cover the hypothetical losses associated with the two greatest CP AG uncollateralized losses under the extreme but plausible scenarios.

## **II. Indirect Participant Risk Policy**

The risk management program at ICC includes various elements designed to ensure the adequate identification, monitoring and management of risks arising from and relating to indirect participants. The proposed Indirect Participant Risk Policy memorializes such practices and analyses and sets forth the associated governance arrangements. The document is divided into seven sections, which are detailed below.

Section 1 introduces the purpose of the document and defines key terms. Indirect participants are defined as the underlying clients of ICC’s CPs. ICC’s CPs with clients are referred to as Futures Commission Merchants/Broker Dealers (“FCMs/BDs”) throughout the document. Indirect Participants can pose risk to CPs and indirectly to ICC due to the presence of Large Traders. A Large Trader includes a client of a CP that exhibits large risk exposure in its portfolio that transpires through concentrated position(s), significant level of collateralization and large uncollateralized losses under extreme but plausible market stress scenarios.

Sections 2 through 4 describe and memorialize the identification, monitoring, and risk management practices related to indirect participants and the presence of Large Traders. Section 2 introduces a report that enables ICC to determine the presence of potential Large Traders and assess the level of risk that they may pose to the CP and/or ICC. Client risk exposure across all FCMs/BDs and corresponding indirect participants are summarized in this report, which allows the ICC Risk Department to monitor and identify the FCMs/BDs with the largest indirect participants. Section 3 details a report summarizing ICC’s indirect participants with risk profiles prone to adverse risk distribution, due to their size, across all FCMs/BDs. The criteria for the selection of indirect participants in this report is set out in the Indirect Participant Risk Policy. Further, Section 3 describes a complementary report, which would indicate the probability of an indirect participant adversely distributing its risk across multiple FCMs/BDs and provide guidance on additional indirect participants to be included for reporting. Individual client portfolio level stress testing is executed and presented through another report discussed in Section 4. The selection of indirect participants and FCMs/BDs for this analysis as well as relevant assumptions are also explained in Section 4. Moreover, each section details the frequency of execution or review of the report by the ICC Risk Department and the frequency of review by the ICC Risk Committee.

Section 5 memorializes governance procedures associated with the performance and review of the aforementioned analyses. The Indirect Participant Risk Policy specifies the group or individual involved in the execution, interpretation, review, and reporting of the analyses as well as the frequency. Section 5 also sets out the actions to be taken if the ICC Risk Department and the ICC Risk Committee deem the risk arising from indirect participants to be significant. In Sections 6 and 7, ICC includes references and a revision history.



#### 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 Stress Testing Framework changes and the Indirect Participant Risk Policy are consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33. The Stress Testing Framework changes and the Indirect Participant Risk Policy enhance ICC’s ability to manage its financial resources by providing further clarity and transparency on the stress test methodology and on the procedures and analyses related to managing risk from indirect participants. Such changes continue to ensure that ICC’s policies and procedures, including the Stress Testing Framework and Indirect Participant Risk Policy, provide a clear framework for ICC to conduct stress testing and analysis and report the results to appropriate decision makers at ICC. The changes would enhance the implementation of such policies and procedures and ensure that responsible parties effectively carry out their assigned duties, thereby supporting ICC’s ability to maintain its financial resources and withstand the pressures of defaults, consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33.

**Risk Management:** The Stress Testing Framework changes and the Indirect Participant Risk Policy are consistent with the risk management requirements of Core Principle D and Commission Regulations 39.13 and 39.36. The amendments strengthen the Stress Testing Framework by providing more detail on the methodology and making other clarification changes to ensure that it remains up-to-date and transparent. The Indirect Participant Risk Policy describes and memorializes the practices and analyses governing the identification, monitoring, and review of risk arising from and relating to indirect participants and sets forth the associated governance arrangements. Such updates continue to 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:

ICC proposes to amend the Stress Testing Framework and to adopt and formalize the Indirect Participant Risk Policy. ICC has respectfully requested confidential treatment for the Stress Testing Framework and the Indirect Participant Risk Policy, which were submitted concurrently with this self-certification submission.

#### Certifications:

ICC hereby certifies that the Stress Testing Framework changes and the Indirect Participant Risk Policy 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 black ink that reads 'Maria Alarcon' in a cursive script.

Maria Alarcon  
Staff Attorney