



**Olivia Bazor**  
*Staff Attorney*

September 18, 2024

**Re: Updates to Back-Testing 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 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 of changes to the ICE CDS Clearing Back-Testing Framework (“Back-Testing 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.

*Concise Explanation and Analysis*

ICC proposes revising the Back-Testing Framework, which describes ICC’s back-testing approach and procedures and includes guidelines for remediating poor back-testing results. The proposed amendments enhance how credit default swap index options that expire in-the-money within the margin period of risk, are treated for profit or loss purposes in back-testing and other clarifications. The proposed revisions are described in detail as follows.

ICC proposes to enhance Subsection 2.4. of the Back-Testing Framework by adding a detailed description on how in-the-money (“ITM”) expiring credit default swap (“CDS”) index option (“Index Swaption”) positions, within the margin period of risk (“MPOR”),<sup>1</sup> are treated in back-testing. Specifically, the proposed revisions enhance how Index Swaptions that expire ITM within the MPOR, are treated for profit or loss (“P/L”) purposes in back-testing. The proposed revisions provide that with respect to Index Swaptions that expire ITM within the MPOR, for back-testing calculation purposes, the mark to market (“MTM”) value of the expired ITM Index Swaption positions are replaced with their corresponding intrinsic values (“IV”)<sup>2</sup> of such Index Swaptions based on their corresponding underlying CDS index’s end-of-day price at the given back-testing day. The ITM Index Swaption position, with a positive IV, results in an

---

<sup>1</sup> Margin-period-of-risk or MPOR for back testing purposes reflects the greatest considered risk horizon used for ICC’s initial margin requirements.

<sup>2</sup> In the context of ITM Index Swaptions, intrinsic value or IV is the difference between the current price of the underlying CDS index and the Swaption’s exercise price.



option exercise on the expiration date and reflects the positive value to the option holder of buying/selling the underlying CDS index position at the fixed option strike price and selling/buying the underlying CDS index position at the end-of-day price for a profit. Likewise, the sold ITM Index Swaption position, with negative IV, results in the assignment of an underlying CDS index position to the seller of the option on the expiration date, where the assigned underlying CDS index position could be bought or sold protection position depending on the type of the sold option instrument. The unrealized P/L for the exercised/assigned ITM Swaption positions, within the MPOR, are computed against the underlying MTM, after the ITM Index Swaptions expiration date, for-back testing purposes.

Also, ICC proposes the addition of Table 5, ‘Minimum 5-Day P/L Detail for Expiring Options Positions’ to Subsection 2.4. Table 5 provides an illustrative example of the computation of MTM and unrealized P/L for back-testing purposes for an ITM Index Swaption position that expires within the MPOR. The example calculation provided in Table 5 is intended to provide further transparency of ICC’s back-testing P/L treatment of ITM Index Swaptions that expire within the MPOR.

ICC proposes additional clarifications to the Back-Testing Framework. The proposed amendments include the addition of footnote 1 in Subsection 1.1 that clarifies ‘Net Asset Value’ is also referred to and is equivalent to ‘Mark to Market.’ Also, ICC proposes to change references from “P&L” in Table 3 and Table 4 to “P/L” to consistently refer to ‘profit or loss’ throughout the Back-Testing Framework.

Lastly, ICC proposes to update Section 6, “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 revisions to the Back-Testing Framework are consistent with the financial resource’s requirements of Core Principle B and Commission Regulation 39.33. ICC believes that the proposed changes will enhance ICC’s ability to manage risks and maintain appropriate financial resources, including enhancements on how expiring Index Swaptions are valued in back-testing. The revisions further ensure clarity and transparency with respect to ICC’s back-testing approach, procedures, and guidelines for remediating poor back-testing results. ICC believes that having policies and procedures that clearly and accurately document is back-testing approach is an important component to the effectiveness of ICC’s risk management system and support ICC’s ability to maintain adequate financial resources. The revisions would therefore support 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 revisions to the Back-Testing Framework are consistent with the risk management requirements of Core Principle D and in Commission Regulations 39.13 and 39.36. ICC believes that the proposed changes would further ICC’s ability to manage risks by enhancing how expiring Index Swaptions are valued in back-testing. The procedures in the Back-Testing Framework continue to promote the soundness of ICC’s risk management model and ensure that ICC’s risk management system is effective and appropriate in addressing the risks associated with discharging its responsibilities, consistent with the risk management requirements of Core Principle D and Commission Regulations 39.13 and 39.36.

#### Amended Rules:



The proposed changes consist of revisions to the Back-Testing Framework. ICC has respectfully requested confidential treatment for the Back-Testing Framework which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the changes to the Back-Testing Framework 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, which may be accessed at: <https://www.ice.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 904-855-5580.

Sincerely,

A handwritten signature in black ink, appearing to be the initials 'OB'.

Olivia Bazor  
Staff Attorney