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Sarah Williams
Compliance Manager

January 29, 2018

Re: Updates to ICC Rules, ICC Risk Management Model Description Document, the ICC Risk Management Framework, the ICC Stress Testing Framework, and the 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 Clearing Rules (the "Rules), the ICC Risk Management Model Description Document, the ICC Risk Management Framework, 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 certain amendments to its Rules to support clearing of a new transaction type. ICC also proposes related loss given default enhancements to the ICC Risk Management Model Description Document, the ICC Risk Management Framework, the ICC Stress Testing Framework, and the ICC Liquidity Risk Management Framework. This submission includes a description of the changes to the ICC Rules, the ICC Risk Management Model Description Document, the ICC Risk Management Framework, 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.

Proposed Amendments to the ICC Rules

The purpose of the proposed changes to the ICC Rules is to support clearing of a new transaction type, Standard European Senior Non-Preferred Financial Corporate, which was recently published by the International Swaps and Derivatives Association, Inc. ("ISDA"). ICC proposes amending its Rules to provide for the clearance of contracts referencing this new transaction type. ICC believes the addition of these contracts will benefit the market for credit default swaps by providing market participants the benefits of clearing, including reduction in counterparty risk and safeguarding of margin assets pursuant to clearing house rules.

Specifically, ICC proposes amending Rule 26H-102 (Definitions), 'List of Eligible Standard European Financial Corporate ("STEFC") Reference Entities' to include Standard European Senior Non-Preferred

Financial Corporate in the list of Eligible STEFC Reference Entities to be cleared by ICC. ICC also proposes amending Rule 26H-102 (Definitions), 'STEFC Contract Reference Obligations' to note that in the case of a STEFC Reference Entity where the transaction type is Standard European Senior Non-Preferred Financial Corporate, the STEFC Contracts Reference Obligation shall be determined in accordance with the Additional Provisions for Senior Non-Preferred Reference Obligations, as published by ISDA. ICC also proposes conforming changes to Rule 26H-303 (STEFC Contract Adjustments) and Rule 26H-315 (Terms of the Cleared STEFC Contract), to incorporate reference to the new transaction type.

Proposed Loss Given Default Enhancements

ICC's risk management methodology incorporates considerations of idiosyncratic credit events and the associated potential losses. These credit event losses are termed Loss-Given-Default ("LGD"). In order to support clearing of the new transaction type, ICC proposes certain LGD enhancements to its risk model. A description of these changes is set forth below.

ICC first proposes Risk Factor ("RF") level LGD enhancements. These proposed RF level enhancements are designed to better capture the LGD risk associated with the issuance of new debt structures by European banks, and provide a consistent recovery rate scenario approach to different sub-factors.

Under ICC's risk model, every Single Name ("SN") reference entity is deemed a RF. Each combination of definition, doc-clause, tier, and currency for a given SN RF determines a SN Risk Sub-Factor ("RSF"). Currently, ICC measures losses associated with credit events ("LGD") by means of a stress-based approach, which utilizes three recovery rate ("RR") scenarios: minimum RR, expected RR, and maximum RR. Outright and index-derived RSF exposures are combined at each RR scenario.

The results of these RR scenarios are used as an input into the Profit/Loss-Given-Default ("P/LGD") calculations at both the RSF and RF levels. For each RSF, P/LGD is calculated as the worst credit event outcome, and for each RF, P/LGD is calculated as the sum of the worst credit outcomes per RSF. These final P/LGD results are used as part of the determination of risk requirements.

ICC proposes enhancements to the RF level LGD calculation. Specifically, ICC proposes a change to the calculation by incorporating a more consistent approach in the calculation of the P/LGD by using the same RR scenarios applied to the different RSFs which are part of the considered RF.

For each RF, ICC will continue to calculate an "extreme outcome" as the sum of the worst RSF P/LGDs across all scenarios. ICC also will, for each RF, calculate an "expected outcome" as the worst sum of all the RSF P/LGDs across all of the same scenarios. Under the proposed approach, ICC will then combine the results of the "extreme outcome" calculation and the "expected outcome" calculation to compute the total LGD for each RF.

ICC also proposes to expand its LGD analysis to Risk Factor Groups ("RFG"). Under the proposed changes, a collection of related RFs will form a RFG. These related RFs will be defined as a RFG based on either 1) having a common majority parental sovereign ownership (e.g. quasi-sovereigns and sovereigns), or 2) being a majority owned subsidiary of a common parent entity according to the Bloomberg Related Securities Analysis. A RFG can consist of only one RF. This change will better capture the risk exposure dynamics of related RFs, and will allow ICC the ability to provide limited LGD benefits across RFs with opposite exposures, as well as allow for the ability to capture accumulation of directional exposure for related RFs.

Under the proposed approach, the total quantity LGD will be calculated on a RFG level, and account for the exposure due to credit events associated with the reference entities within a given RFG. If a RFG contains only one RF, the LGD will continue to be computed as the risk exposure due to a credit event for a given underlying reference entity. Under the proposed approach, ICC will sum the P/LGDs for each RF in a given RFG, with limited offsets in the event RFs exhibit positive P/LGD. Using the results of the above calculation, ICC will obtain the RFG level LGD. The proposed approach also includes a calculation which allows for the RFG level LGD to be attributed to each RF within the considered RFG.

ICC proposes changes to the 'Loss Given Default Risk Analysis' section of the Risk Management Model Description Document to reflect the described RF and RFG LGD calculation changes. ICC also proposes conforming changes to other sections of the Risk Management Description Document to incorporate these methodology changes and reflect the RFG analysis.

ICC proposes a revision to the 'Uncollateralized Loss Given Default' calculation in the Risk Management Model Description Document in order to incorporate the RFG level LGD attribution calculation mentioned above.

ICC proposes changes to the 'Idiosyncratic Jump-to-Default ("JTD") Requirements' section of the Risk Management Model Description document. Currently, the portfolio JTD approach collateralizes the worst uncollateralized LGD ("ULGD") exposure among all RFs. Under the proposed approach, the portfolio JTD approach will collateralize, through the portfolio JTD Initial Margin requirement that accounts for the RFG-specific LGD collateralization, the worst ULGD exposure among all RFGs. The ULGD exposure for a given RFG will be calculated as a sum of the associated RF ULGDs.

ICC also proposes minor edits to the 'Portfolio Level Wrong-Way Risk and Contagion Risk Analysis' section of the Risk Management Model Description Document to update language and calculation descriptions to accommodate the introduction of the RFG to the 'Idiosyncratic Jump-to-Default Requirements' section.

ICC proposes changes to the 'Guaranty Fund Methodology' section of the Risk Management Model Description Document. ICC's risk management approach establishes GF to provide for the mutualization of losses under extreme credit market scenarios. Specifically, the ICC GF is designed to provide adequate funds to cover losses associated with the default of the two CP affiliate groups that would potentially cause the largest aggregate credit exposure to ICC under extreme but plausible market conditions. ICC's current GF methodology includes, among other assumptions and adverse market conditions, the assumption that up to three credit events, different from the ones associated with CPs, occur during the established risk horizon. ICC proposes expanding this analysis to the RFG level. Under this proposed approach, it will be assumed that credit events associated with up to three RFGs, different from the ones associated with the CPs and the RFs that are in the same RFGs as the CPs, occur during the established risk horizon. As such, the uncollateralized losses, used in the Guaranty Fund analysis, reflect the proposed expansion to the RFG level.

ICC also proposes clarifications in the Risk Management Model Description Document to the calculation for the Specific Wrong Way Risk component of the Guaranty Fund. Currently, for a given CP, the Specific Wrong Way Risk component is based on self-referencing positions arising from one or more RFs; ICC proposes clarifying this analysis to be based on the RFG level.

ICC proposes conforming changes to its Risk Management Framework, Liquidity Risk Management Framework, and Stress Testing Framework, to reflect the LGD enhancements described above. For the Risk Management Framework, ICC proposes revisions to the 'Jump-to-Default Requirements' section to note that the worst LGD associated with a RFG is selected to establish the portfolio idiosyncratic JTD requirements. ICC also proposes revisions to the 'Guaranty Fund' section to reflect the RFG LGD enhancements related to ICC's Guaranty Fund calculation.

With regards to the Stress Testing Framework, ICC proposes changes to its stress testing methodology to be based on the reference entity group level (also referred to as the RFG level). Currently, ICC utilizes scenarios based on hypothetically constructed (forward looking) extreme but plausible market scenarios augmented with adverse credit events affecting up to two additional reference entities per CP affiliate group; ICC proposes expanding its adverse credit event analysis to include up to two additional reference entity groups. ICC also proposes that the selected RFG for stress testing purposes must contain one or more reference entities displaying 500 bps or greater 1-Y end-of-day spread level in order to be subjected to credit events. ICC also proposes changes to its reverse stress testing, general wrong way risk, and contagion stress testing analyses, to be at the RFG level. ICC proposes removing RF level references under its Recovery Rate Sensitivity analysis to be consistent with the proposed changes related to RFG.

Finally, with regards to the ICC Liquidity Risk Management Framework, ICC proposes changes to its liquidity stress testing methodology to be based on the reference entity group level (also referred to as the RFG level). Currently (consistent with the stress testing methodology), ICC utilizes scenarios based on hypothetically constructed (forward looking) extreme but plausible market scenarios augmented with adverse credit events affecting up to two additional reference entities per CP affiliate group; ICC proposes expanding its adverse credit event analysis to include up to two additional reference entity groups. Similar to the Stress Testing Framework, ICC also proposes that the selected RFG for liquidity stress testing purposes must contain one or more reference entities displaying 500 bps or greater 1-Y end-of-day spread level in order to be subjected to credit events. Finally, ICC is adding additional language to the liquidity framework detailing the rationale behind the selection of the 500 bps threshold, to be consistent with Stress Testing Framework.

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:

Participant and Product Eligibility: ICC has set appropriate standards in ICC’s policies and procedures for determining the eligibility of contracts. Contracts referencing the Standard European Senior Non-Preferred Financial Corporate transaction type fulfill ICC’s standards regarding product eligibility, and are consistent with the product eligibility requirements of Core Principle C and Commission Rule 39.12.

Risk Management: ICC will apply its established risk management, margin and pricing methodology to contracts referencing the Standard European Senior Non-Preferred Financial Corporate transaction type. The LGD related amendments are consistent with the risk management requirements of Core Principle D and the risk management requirements set forth in Commission Regulation 39.36. The proposed risk model revisions enhance ICC’s risk methodology and are expected to impose more conservative requirements.

Settlement Procedures: Contracts referencing the Standard European Senior Non-Preferred Financial Corporate transaction type are subject to ICC’s current physical settlement rules under Chapter 22: CDS Physical Settlement, which are consistent with the settlement procedures requirements of Core Principle E.

Financial Resources: The LGD related amendments are consistent with the financial resource requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. These proposed risk model revisions are expected to impose more conservative requirements, which would enhance the financial resources available to ICC. In particular, the LGD related amendments will enhance the financial resources available to the clearing house, and continue 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.

Amended Rules:

The proposed change consists of changes to the ICC Rules, the ICC Risk Management Model Description Document, the ICC Risk Management Framework, the ICC Stress Testing Framework, and the ICC Liquidity Risk Management Framework. ICC has respectfully requested confidential treatment for the ICC Risk Management Model Description Document, the ICC Risk Management Framework, the ICC Stress Testing Framework, and the ICC Liquidity Risk Management Framework which were submitted concurrently with this self-certification submission.

Annexed as an Exhibit hereto is the following:

A. Proposed amendments to the ICC Rules

<u>Certifications</u>:

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,

Sarah Williams

Sarah Williams
Compliance Manager