

Sarah Williams
Staff Attorney

March 28, 2017

Re: Formalization of the ICC Model Validation 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 to formalize the ICC Model Validation Framework. ICC is registered with the Commission as a derivatives clearing organization (“DCO”). ICC intends to formalize the ICC Model Validation Framework 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 formalize the ICC Model Validation Framework, which sets forth ICC’s model validation procedures. This submission includes a description of the ICC Model Validation Framework and the model validation procedures set forth therein. Certification of the ICC Model Validation Framework pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC has developed a proprietary risk management system that models the risk of credit default swap based portfolios and determines appropriate Initial Margin and Guaranty Fund requirements. The risk management system is composed of risk modeling components (“Model Components”) which employ a combination of statistical analysis of credit spread time series and stress test simulation scenarios to address different risk drivers. The risk drivers addressed by the Model Components constitute the foundation of total Initial Margin and Guaranty Fund requirements for cleared portfolios. The ICC Model Validation Framework provides assurances as to the appropriateness of its risk requirements. ICC’s Risk Oversight Officer is the ICC Model Validation Framework owner and is responsible to the ICC President for the successful operation and maintenance of the ICC Model Validation Framework.

ICC considers both new Model Components and enhancements to Model Components as part of its Model Validation Framework (collectively, “Model Change”). New Model Components consider risk drivers that are not currently included in the risk management system; enhanced Model Components improve upon the methodologies used by the risk management system to consider a given risk driver or drivers. ICC classifies Model Changes as either Materiality A or Materiality B, depending on how substantially the Model Change affects the risk management system’s assessment of risk for the related risk driver or drivers. The ICC Chief Risk Officer and the ICC Risk Oversight Officer will review all enhancements to ICC’s risk management system and decide which enhancements qualify as Model Changes, and which qualifying enhancements should be classified as Materiality A versus Materiality B.

Materiality A Model Changes receive a higher control standard than Materiality B Model Changes. The ICC Risk Committee reviews the materiality classifications and provides feedback as necessary.

The ICC Model Validation Framework sets forth the process for selecting Model Validators and describes the independent validator criteria, including technical expertise and independence requirements. The ICC Model Validation Framework also describes the Model Inventory which is maintained by the ICC Risk Department and which contains key information about all ICC Model Components and Model Changes. The ICC Risk Oversight Officer will review the model inventory at least quarterly to ensure that it contains accurate and up to date information relating to ICC's Model Components and Model Changes.

The ICC Model Validation Framework consists of four controls: initial validation; ongoing monitoring and validation; investigation; and independent periodic review. Before going live with a Model Change, ICC must successfully complete an initial validation of the conceptual soundness of the methodology and the proposed ongoing monitoring and validation approach. All Model Changes are subject to internal initial validation. In addition, Materiality A Model Changes are subject to an additional independent initial validation.

Ongoing monitoring and validation provides assurances that ICC has appropriately configured and calibrated the risk management system, including any recent Model Change, and that the risk management system is achieving the desired level of performance. The ongoing monitoring and validation control consists of three areas: parameter setting, execution monitoring, and outcome analysis.

If ongoing monitoring and validation identifies features of the risk management system that might indicate a Model Component weakness, ICC investigates and identifies the root cause. If a model weakness is discovered during investigation, the ICC Chief Risk Officer informs the ICC Risk Committee of the ongoing monitoring and validation results which triggered the investigation. If ICC is satisfied that the identified features do not represent a model weakness, the ICC Chief Risk Officer will present the results of the investigation demonstrating no model weakness exists. If ICC identifies a model weakness during the investigation, the ICC Chief Risk Officer will present the results of the investigation demonstrating a model weakness, and ICC will remediate the identified weakness through an appropriate Model Change, which passes through the ICC Model Validation Framework starting with an Initial validation.

The ICC Chief Risk Officer provides support and information to allow the independent validators to perform periodic reviews of all ICC Model Components and related practices at least once in every calendar year. At ICC's choosing, the scope of an independent periodic review may cover all Model Components used by the risk management system, or a subset of Model Components, as long as all Model Components are included in one or more independent periodic reviews each year. The independent periodic review will demonstrate that the Model Components remain fit for purpose; that the Model Components assumptions are valid; that ICC has adequately addressed any medium priority open items from Model Change initial validations and any other implementation conditions; and that ICC has been complying with its ongoing monitoring and validation requirements and the Model Components are performing without any significant weakness. The deliverables from the independent periodic review must include a report from the independent validator providing a summary of the completed evaluation and details of any remaining open items, classified by priority. The ICC Chief Risk Officer will present the periodic review to the ICC Risk Committee and describe ICC's plans in relation to any open high or medium priority items in the report.

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 Principle as being impacted:

Risk Management: The ICC Model Validation Framework is consistent with the risk management requirements of Core Principle D and Commission Regulation 39.36(e). ICC's Model Validation Framework sets forth ICC's model validation procedures, which include independent validation of all ICC Model Components and related practices at least once in every calendar year.

Amended Rules:

ICC proposes to formalize the ICC Model Validation Framework. ICC has respectfully requested confidential treatment for the ICC Model Validation Framework which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the ICC Model Validation Framework complies with the Act and the regulations thereunder. There were no substantive opposing views to the revisions.

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".

Sarah Williams
Staff Attorney