

Maria Alarcon
Staff Attorney

April 22, 2020

Re: Formalization of the ICC CDS Instrument On-boarding Policies and Procedures 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 to formalize the ICC CDS Instrument On-boarding Policies and Procedures (“Instrument On-boarding 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 update and formalize the ICC Instrument On-boarding Policy. This submission includes a description of the ICC Instrument On-boarding Policy. Certification of the ICC Instrument On-boarding Policy pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The Instrument On-boarding Policy provides an overview of ICC’s on-boarding process for new instruments, which includes selecting new instruments for clearing, configuring internal systems, notifying and receiving feedback from stakeholders, and ensuring operational readiness by ICC and its Clearing Participants (“CPs”). Specifically, the on-boarding process includes the following components that are described in detail in the document: instrument selection, on-boarding governance, operational setup, risk evaluation, pricing evaluation, and dress rehearsal.

The Instrument On-boarding Policy contains procedures for instrument selection. The document memorializes the guiding principles that ICC maintains for considering instruments for clearing, which contemplate various factors such as instrument open interest and volume, whether instruments can be cleared through existing systems and processes, and industry wide initiatives and protocols. Additionally, the document details how ICC identifies an initial universe of proposed instruments and applies the guiding principles to this universe, including the analysis performed by ICC to identify the specific list of instruments that meet the guiding principles from such universe of proposed instruments.

Further, the Instrument On-boarding Policy documents the governance process that follows the determination that the proposed instruments meet ICC’s guiding principles. The Instrument On-boarding Policy sets forth the roles and responsibilities of various stakeholders as part of the on-boarding governance process, including the role of the ICC Legal Department in determining appropriate governance actions and the role of relevant committees and working groups in reviewing certain analyses. Moreover, proposed instruments are classified into four categories: (1) a new instrument that

falls under a previously approved instrument type, such as a previously approved CDS corporate single name instrument type (e.g., North American Corporate Single Names) or a previously approved CDS sovereign single name instrument type (e.g., Emerging Market Sovereign Single Names); (2) a new instrument that falls under a new instrument type that is not considered in the ICC Rules; (3) a new instrument that falls under a new product category (e.g., CDS on indices and CDS on single names) that is not considered in the ICC Rules; and (4) a new instrument that falls out of scope of the standard on-boarding process, relating to, for example, index roll dates and credit events. For each category, the Instrument On-boarding Policy explains the governance process, including notification to and review and approval by relevant stakeholders such as the ICC Board of Managers (the “Board”), committees and working groups, and regulators.

The Instrument On-boarding Policy illustrates the operational configuration necessary to allow ICC’s clearing, risk management and pricing systems to evaluate and accept transactions, process and net transactions in the proposed instruments and price the proposed instruments. For this operational setup, the document notes a particular product attribute that must be defined, specific lists or documents that are maintained, and certain information that is loaded into ICC’s databases and risk systems.

Regarding risk and pricing evaluation, ICC ensures that its risk models adequately capture the risks associated with the new instruments and that the price dynamics of the new instruments are appropriately captured by the end-of-day price discovery process. The Instrument On-boarding Policy describes the performance of back-testing and stress-testing to demonstrate that the risks associated with the proposed instruments are appropriately accounted for by ICC’s risk models and that Initial Margin and Guaranty Fund requirements will provide adequate protection to ICC and its CPs. For the pricing evaluation, the Instrument On-boarding Policy further discusses how ICC ensures that its end-of-day price discovery process operates effectively with the proposed instruments.

Before launch, ICC performs a dress rehearsal, lasting at least two weeks, during which the end-of-day price discovery process is executed each business day. During the dress rehearsal, ICC collects price submissions and fine tunes pricing parameters, if required. Once ICC has successfully completed the steps in the on-boarding process and received any required regulatory approvals, the Instrument On-boarding Policy allows ICC to deem an instrument eligible for clearing.

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 Instrument On-boarding Policy is consistent with the financial resources requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The Instrument On-boarding Policy describes the guiding principles that ICC maintains to ensure that it selects instruments in a prudent manner. The document also illustrates the risk and pricing evaluation components of the on-boarding process whereby ICC ensures that its risk models adequately capture the risks associated with new instruments and that the price dynamics of new instruments are appropriately captured by the end-of-day price discovery process. As such, ICC believes that the Instrument On-boarding Policy enhances its ability to manage and assess the risk to ICC of new instruments and avoid disruptions to operations, thereby ensuring that ICC continues to maintain sufficient financial resources to withstand, at a minimum, a default by the two CP Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions, consistent with the requirements of Commission Regulation 39.33.

Risk Management: The Instrument On-boarding Policy is consistent with the risk management requirements of Core Principle D. The Instrument On-boarding Policy enhances ICC’s ability to manage the risk to ICC of new instruments by describing the on-boarding process in detail, including the steps to take prior to clearing new instruments, and by documenting the roles and responsibilities of relevant stakeholders, such as the Board, committees and working groups, and ICC personnel. ICC believes that

this document ensures that ICC possesses the ability to manage the risks associated with discharging its responsibilities, consistent with the risk management requirements of Core Principle D.

System Safeguards: The Instrument On-boarding Policy is consistent with the system safeguards requirements of Core Principle I. The Instrument On-boarding Policy discusses the sequence and timing for the introduction of new instruments to ensure that ICC and its CPs are operationally ready and that ICC proceeds in a controlled manner to minimize operational risk. Moreover, the document details the testing and preparation that ICC must complete prior to the launch of a new instrument for clearing to reduce the likelihood of a disruption in operations from a new instrument, thereby improving ICC's ability to identify and minimize sources of operational risk.

Amended Rules:

ICC proposes to formalize the ICC Instrument On-boarding Policy. ICC has respectfully requested confidential treatment for the ICC Instrument On-boarding Policy, which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the Instrument On-boarding Policy complies 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,



Maria Alarcon
Staff Attorney