Maria Alarcon
Staff Attorney

April 23, 2021

Re: ICC Transition of the Rates Used for Calculating Price Alignment Amounts 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 transition the interest rates used for computing price alignment amounts on Mark-to-Market ("MTM") Margin Balances. 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.

The changes are designed to transition the interest rates used for computing price alignment amounts on MTM Margin Balances under ICC Rule 401(g)[1] and include one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates. Such changes are in response to requests by industry participants in the context of the broader transition in interest rate benchmark rates and follow similar changes for other cleared swap products. This submission includes a description of the proposed changes. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The target date of the transition is Monday, June 14, 2021, subject to any regulatory review or approval process. On the transition date, ICC would begin calculating price alignment amounts for Euro ("EUR") denominated instruments using the Euro Short-Term Rate ("€STR") rather than the Euro Overnight Index Average ("EONIA") and for U.S. Dollar ("USD") denominated instruments using the Secured Overnight Financing Rate ("SOFR") rather than the Effective Federal Funds Rate ("EFFR"). Such changes do not require any revisions to the ICC Rules or other written policies and procedures. In accordance with ICC Rule 401(g), the rate in respect of price alignment amounts on any MTM Margin Balance is determined by ICC.

The proposed changes are in response to requests by industry participants and follow similar changes for other cleared swap products. The European Central Bank's ("ECB") working group on EUR risk-free rates recommended €STR as the EUR risk-free rate and the replacement for EONIA in September 2018.[2] The

1 Capitalized terms used but not defined herein have the meanings specified in the Rules.
2 Additional information on the working group and the transition to €STR is available at: https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html.

ICE Clear Credit
353 North Clark Street,
Suite 3100
Chicago, IL 60654
Tel: 312.836.6700
Fax: 312.636.0020
ice.com

ECB began publishing €STR in October 2019 and the working group is assisting the market in transitioning to €STR before EONIA is discontinued on January 3, 2022.[3] The Alternative Reference Rates Committee ("ARRC") was convened by the Federal Reserve Board and the Federal Reserve Bank of New York and identified SOFR as the rate representing best practice for use in certain new USD derivatives and other financial contracts in 2017.[4] The ARRC published a transition plan including specific steps and timelines to encourage the adoption of SOFR.[5]

In connection with the proposed transition, feedback from ICC clearing participants ("CPs") has indicated a desire for one-time adjustment payments to or from the CP, as appropriate, to account for the reasonably expected valuation changes for Contracts associated with the use of the new interest rates. ICC thus proposes to calculate such one-time adjustment payments and make corresponding payments to and collections from CPs in connection with the transition of the rates used for calculating price alignment amounts.

Proposed Transition Process

On the transition date, ICC proposes to begin using the new rates for calculation of price alignment amounts. CDS denominated in EUR will stop using EONIA and will start using €STR, and CDS denominated in USD will stop using EFFR and will start using SOFR. The target transition date at the time of this filing is Monday, June 14, 2021 but may be delayed by ICC. Any revised transition date will fall on a Monday to maintain the proposed operational process and will be publicized by ICC. The €STR and SOFR rates available on Monday, June 14, 2021 will be applied to MTM Margin Balances of Friday, June 11, 2021 for the determination of the first day of price alignment amounts using the new rates.

In connection with the transition of the rates, ICC proposes to calculate one-time adjustment amounts and pay or collect, as appropriate, such amounts to or from CPs to account for the reasonably expected valuation changes associated with the use of the new interest rates. In calculating the adjustment amounts, ICC will use the following methodology, which has been subject to substantial discussion and feedback from market participants.

One-Time Adjustment Methodology

The proposed one-time adjustment methodology is set out as follows:

- ICC will obtain implied hazard term structures by using the end-of-day ("EOD") settlement values and the near EOD discount rate term structure for the rate being replaced (EFFR for USD denominated and EONIA for EUR denominated products) in the ISDA CDS Standard Model (fair value).
- For single name Contracts, the EOD prices of the nine benchmark tenors will be used to create the corresponding implied hazard rate term structure. Standard industry recovery rates will also be used except for distressed names where the standard recovery rate cannot result in a consistent hazard rate term structure. In such case, a recovery rate will be used that is close to the standard recovery rate that can result in a consistent hazard rate term structure.
- For index Contracts, the implied hazard rates for the tenors available for clearing will be used to create an implied hazard rate term structure. Based on feedback requesting that ICC include the 3-year tenor of iTraxx Crossover and CDX High Yield index in determining the hazard rate term structure, ICC has been collecting daily prices for these instruments even though they are

3 Id.

4 Additional information on the ARRC and transition to SOFR is available at: https://www.newyorkfed.org/arrc.

5 Id.

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ice.com

not clearing eligible. ICC clears the 3-year tenor of the CDX High Yield Index Series 35 and later only. ICC will review the reasonability of the price collection with its Risk Committee near the transition date to determine whether to use these tenors in determining the hazard term structures for iTraxx Crossover and CDX High Yield indexes.

- ICC will calculate an adjusted EOD valuation using the implied hazard rate term structure and the replacement discount rate term structure (e.g., SOFR for USD and €STR for EUR denominated products).
- The EOD valuation less the adjusted EOD valuation will be the adjustment amount.
- EOD London snapshots of EONIA and €STR interest rate curves and EOD New York snapshots of EFFR and SOFR interest rate curves published by ICE Data Services will be used for the discount rate term structures.[6]

Operational Process

ICC has defined the operational process for the one-time adjustment payments and corresponding collections. ICC will include the ad-hoc adjustments in CP EOD processing on Monday, June 14, 2021, which will be netted with other cash payments to determine Monday, June 14, 2021 EOD CP margin calls to be paid Tuesday, June 15, 2021. ICC will provide CPs and clients with position level adjustment details after EOD Friday, June 11, 2021 and prior to Monday, June 14, 2021. ICC will allow CPs to allocate adjustments at the level of individual house or client accounts. The proposed approach is intended to enable clients to reconcile adjustments they may receive from their CP. Further, ICC will provide CPs and clients the opportunity to review and consume relevant files as part of pre-transition simulations.

Market Participant Engagement and Outreach

The proposed transition has been discussed and coordinated by ICC with market participants, as well as with ICE Clear Europe, to achieve an orderly and efficient transition to the new rates. ICC has sought feedback from and engaged with market participants to determine the proposed approach throughout 2020 and 2021, including through the ICC Risk Committee and the ISDA Credit Steering Committee. In relation to CDS valuations, feedback has indicated a desire for one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates. The proposed one-time adjustment methodology, among other details, has been subject to substantial discussion and feedback from market participants.

ICC has made its proposed approach publicly available on its website[7] and issued a circular on the topic.[8] The proposed approach was approved by the ICC Board and is a product of the aforementioned consultation and governance processes. Based on the significant outreach by ICC, ICC believes that market participants support ICC's approach for the transition. There were no substantive opposing views expressed on the transition or proposed approach.

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6 The proposed methodology, which has been subject to substantial discussion and feedback from market participants, has also been coordinated with ICE Clear Europe. Based on feedback to achieve congruent adjustment amounts for positions at ICC and ICE Clear Europe, EOD valuations for North American products will be taken from ICC's EOD process during its North American pricing window.

7 A detailed presentation, titled ICE CDS Clearing MTM Interest Rates Transition, initially posted and dated March 24, 2021 and updated April 8, 2021, is available at: https://www.theice.com/publicdocs/ice/notifications/adhoc/110000348161/ICE_CDS_Clearing_PriceAlignmentTransition_20210324_v1.3_final.pdf.

8 ICC Circular 2021/029, titled CDS MTM Margin Interest Rates Transition, dated April 8, 2021, is available at: https://www.theice.com/publicdocs/clear_credit/circulars/Circular_2021_029.pdf.

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:

Risk Management: The transition is consistent with the risk management requirements of Core Principle D. The proposed changes transition the interest rates used for computing price alignment amounts and are in response to requests by industry participants in connection with the broader transition in the derivatives markets to the use of SOFR and €STR in lieu of existing interest rate benchmarks. The transition would include one-time adjustment payments to be made to or from CPs to account for the reasonably expected valuation changes associated with the use of the new rates. The transition has been discussed and coordinated by ICC with market participants to achieve an orderly and efficient transition to the new rates. In ICC's view, the proposed approach reduces uncertainty in respect of the transition and the potential impact of the interest rate benchmark reforms and reduces the potential for market disruption given the industry outreach and operational testing done by ICC. ICC will continue to ensure that it 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 transition is consistent with the system safeguards requirements of Core Principle I. ICC has defined the operational process and considerations for the proposed transition, including the one-time adjustment payments, and has planned for pre-transition simulations to promote preparedness among itself and market participants. Such actions enhance ICC's ability to identify and minimize sources of operational risk in respect of the proposed transition. ICC believes that the transition is appropriately designed to reduce operational complexity and sufficiently coordinated among ICC and market participants to achieve an orderly and efficient transition to the new rates.

Public Information: The transition is consistent with the public information requirements of Core Principle L. ICC has made its proposed approach publicly available on its website and issued a circular on the transition, including the one-time adjustment methodology, associated operational process, and pre-transition simulations. ICC believes that it has provided market participants with sufficient information to identify and evaluate any risks and costs associated with the transition.

Amended Rules:

The proposed changes are designed to transition the interest rates used for computing price alignment amounts on MTM Margin Balances and include one-time adjustment payments to account for the reasonably expected valuation changes associated with the use of the new interest rates. Such changes do not require any revisions to the ICC Rules or other written policies and procedures.

Certifications:

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.

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353 North Clark Street,
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Fax: 312.636.0020
ice.com

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

Maria Alarcon
Staff Attorney

ICE Clear Credit
353 North Clark Street,
Suite 3100
Chicago, IL 60654

Tel: 312.836.6700
Fax: 312.636.0020
ice.com