

Sarah Williams
Staff Attorney

May 29, 2015

Re: Revisions to Risk Management Framework and Treasury Operations Policies and Procedures, and Adoption of Risk Management Model Description Document Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6

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 self-certification of organizational and clarifying edits to the ICC Risk Management Framework (“RMF”) and the Treasury Operations Policies and Procedures, and the adoption of a new Risk Management Model Description Document. ICC is registered with the Commission as a derivatives clearing organization (“DCO”). ICC intends to make the changes effective 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 reorganizing the ICC RMF in response to a CFTC recommendation regarding improvements related to the governance of ICC’s risk management documentation. Specifically, ICC proposes organizational and clarifying edits to the RMF and the Treasury Operations Policies and Procedures, and proposes adopting a new Risk Management Model Description Document. A description of the principal changes contained in the revised RMF, the revised Treasury Operations Policies and Procedures, and the Risk Management Model Description Document follows. Certification of the revised RMF, the revised Treasury Operations Policies and Procedures, and the Risk Management Model Description Document pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6 is also provided below.

ICC moved the “Collateral Assets Risk Management Framework” appendix from the RMF to the Treasury Operations Policies and Procedures. Accordingly, references throughout the RMF to the Collateral Assets Risk Management Framework appendix were updated to refer instead to the Treasury Operations Policies and Procedures. ICC moved appendices containing technical risk management information (formerly, RMF Appendices 3-5) to the new ICC Risk Management Model Description Document. Accordingly, references throughout the RMF to these appendices were updated to refer to the Risk Management Model Description Document.

ICC also made general updates and edits throughout the RMF for clarity and consistency. Such edits include correcting verb tenses, adopting consistent abbreviations, and adjusting sentence order to assure logical presentation and word flow, and to use more concise, succinct language. ICC also made additional clarifying edits, as described below. The edits are not substantive and do not affect the nature of ICC’s risk management program.

Within the Overview section of the RMF, ICC refined the Business Overview details to more accurately describe the business operations of Intercontinental Exchange, Inc. and ICC.

ICC made edits to the Governance and Organization section of the RMF to more fully describe which topics the Risk Committee is responsible to advise the Board. The list of documents reviewed by the Risk Committee on at least an annual basis was revised to include the ICC Risk Management Model Description Document, the ICC Treasury Operations Policies and Procedures, and the ICC Liquidity Risk Management Framework. The Risk Working Group (“RWG”) description was updated to note that the group consists of risk personnel from ICC Clearing Participants (“CPs”), and to clarify that the RWG is responsible for reviewing ICC’s risk philosophy and recommending changes to ICC’s risk management framework. The Advisory Committee description was updated to note that the committee is comprised of representatives of up to twelve clients/customers of ICC CPs. The CDS Default Committee description was updated to note that the committee is comprised of representatives from ICC CPs on a rotating basis and to remove reference to a duty to provide feedback on ICC’s risk management framework and parameters because the CDS Default Committee is only convened upon the declaration of a default. The committee description was enhanced to note that, as the CDS Default Committee assists ICC in determining and managing Minimum Target Prices for auctioned portfolios related to a default and that the committee oversees necessary auction(s) as well as the process to re-establish a matched book. The Risk Management Organization section was updated to remove outdated language stating that the Risk Management Department conducts an annual review of ICC’s Risk Management Framework Policy Statement and submits proposed changes to the RWG, Risk Committee, and Board. Further, the section was updated to remove reference to the Risk Management Department being responsible for ICC’s intellectual capital and personnel, while creating, implementing and maintaining ICC’s risk management policies.

ICC made edits to the Product Summary section of the RMF. ICC clarified language to refer to Index CDS Instruments (as opposed to Index Products), Single Name CDS Instruments (as opposed to Single Name CDS), and reference entities (as opposed to companies). The Index CDS instruments section was revised to remove reference to the International Index Company. The Single name CDS Instruments section was modified to refine language concerning what constitutes a credit event. The list of attributes defining a CDS contract was enhanced to include Maturity, as well as reference Notional Amount, as opposed to Notional Principal. Reference to the terms of the contracts being prescribed by the ICC Rules and Participant Agreement was removed. The Risk Factors, Risk Sub-Factors and Instruments section was revised to enhance the definition of Risk Sub-Factor to refer to a specific single name reference obligation seniority and doc clause combination.

ICC made edits to the Systemic Risk Management Approach section of the RMF, which includes Waterfall Levels 1 through 5. ICC revised Waterfall Level 1: Membership Criteria to remove reference, within the Operational Criteria, to employee participation on industry committees (e.g. ISDA, DTCC, etc.). Furthermore, the ongoing monitoring of participants section was enhanced to state: (i) intraday monitoring includes intraday CDS market levels and potential equity price movements, as well as news from Bloomberg and other information sources; and (ii) daily monitoring and analysis includes prior day’s final pays by CP, daily change in Initial Margin (“IM”), margin deficits, unrealized intraday profits/losses for cleared portfolios, risk impact of new intraday trades on cleared portfolios, daily end-of-day (“EOD”) levels, CPs’ Guaranty Fund (“GF”) obligations, CPs’ day-over-day change in GF requirements relative to each firms prior day levels, and CPs’ day-over-day change in GF requirements relative to the total GF balance. Further, ICC clarified that the Risk Management Department reviews weekly stress test results for extreme risk event scenarios to ensure sufficient margin cover under market conditions, as opposed to drastic market conditions. The Participant Withdrawal subsection was revised to remove reference to ICC’s right of One Time Assessment and instead refer more generally to ICC’s power of assessment.

ICC revised the Waterfall Level 2: Initial Margin description to clarify that ICC’s IM requirements consist of a set of individual components that account for various risks and that the methodology includes consideration of hypothetical scenarios for those components. ICC added language to the Spread Response requirements section to note that the hypothetical prices used in calculating the instrument spread response risk IM requirement reflect the time-to-maturity horizon reduced by one day. ICC revised the distributions and related parameters subsection to refer to the more specific feature Mean Absolute Deviation (“MAD”) as opposed to the more general term “scale.” ICC removed reference to a set EWMA decay factor, as the factor is dynamic

and subject to review and changes by the Risk Department in consultation with the Risk Committee. ICC also removed outdated language regarding the initial setting of Auto Regressive process for first order parameters.

ICC revised the description of the considered scenarios to provide a mathematical description of how the considered scenarios are constructed based on statistical analysis of historical time series. The term structure scenario construction is now clearly defined in terms of 99% Value-at-Risk equivalent risk measures for different tenors and the cross-tenor correlation structure is estimated from time series analysis. ICC revised the term “contracting” to “tightening” in the context of spread behavior to provide conformity to more commonly used credit market terminology.

Within the Recovery Rate (“RR”) Sensitivity Requirements subsection, ICC clarified that two additional single name-specific stress-test RRs are considered in determining the requirements.

ICC revised Waterfall Level 3: Mark-to-Market Margin description. Specifically, ICC revised the methodology section to remove specific calculations regarding the methodology and instead refer to the ICC EOD Price Discovery Policies and Procedures, which contain a more fulsome methodology description.

ICC revised Waterfall Level 4: Intra-day Risk Monitoring/Special Margin Call Execution to clarify language describing the calculation of prices to determine the adequacy of collected IM intraday. Specifically, as part of the calculation, ICC utilizes bid-offer quotes which are automatically fed into the ICC risk management intraday monitoring system.

ICC revised Waterfall Level 5: Guaranty Fund description. The ICC GF is designed to provide adequate funds to cover losses associated with the default of the two CPs, as well as any affiliated CPs (i.e. any other CP that owns, is owned by, or is under common ownership with such a CP) with the greatest potential uncollateralized losses. ICC added language to note that the set of all affiliated CPs is considered as a CP affiliate group. Within the Waterfall Level 5 description, ICC revised language to reinforce this CP affiliate group concept. Within the Guaranty Fund Calculation for Clearing Participants subsection, ICC removed reference to summary concepts of uncollateralized loss given default, uncollateralized spread response losses, uncollateralized basis risk losses, and uncollateralized interest rate losses, previously used in describing the computations of the stress scenario losses. ICC more precisely defined the factors considered within the GF calculation and related stress test scenarios as the following: occurrence of multiple credit events, uncollateralized loss-given-default from self-referencing positions, adverse spread scenarios, adverse index-single-name basis widening, adverse interest rate scenarios, and anti procyclicality.

ICC revised the Guaranty Fund Allocation subsection of the RMF to state that CP GF requirements are the sum of two components that are associated with the CP’s Specific Wrong Way Risk uncollateralized loss and the CP’s total uncollateralized loss. ICC added language to state that the CP’s total uncollateralized GF stress loss is the difference between the sum of the stress loss given default, GF stress spread response, GF stress basis risk and interest rate losses and the sum of the IM idiosyncratic jump-to-default requirements, IM spread response requirement, IM basis and interest risk requirement.

ICC revised the General Wrong Way Risk and Contagion Measures subsection to remove technical information that was moved to the Risk Management Model Description Document.

ICC revised the Position Concentration Limits subsection of the Risk Limits and Controls section to clarify that ICC’s concentration charge is designed to increase a CP’s IM requirement toward the risk of maximum loss and ultimately, at the extreme, toward the full expected notional amount of liability of the sold protection or the present value of the amount of coupon payments for bought protection. ICC summarized language referring to the notional liability of the protection sold or the full value of coupon payments to refer more generally to loss associated with the portfolio. ICC revised the Model Time Horizon subsection to note that the standard risk horizon can be increased by the ICC Risk Management Department during banking holiday periods to reflect ICC’s limited ability to execute margin calls. ICC further revised the Position Concentration Limits subsection to clarify that, if at any point, either the margin requirements or concentration charges grow to be a concern, ICC has the authority to execute special or intraday margin calls, and/or to increase the rate at which the concentration charges grow.

ICC revised the Stress Testing subsection of the Back Testing and Stress Testing section to remove specific assumptions associated with the various stress scenarios used in the daily risk management process. ICC also clarified that the Risk Management Department presents stress results at the monthly Risk Committee meetings, as well as recommendations about next steps and recommendations to add or retire stress tests. ICC made edits to the Default Treatment section to remove outdated language stating that ICC seconds traders eligible to serve on the ICE Clear Europe Default Management Committee.

ICC revised the Cash Settlement subsection of the Settlement section to remove outdated language stating that ICC will evaluate a transition to a Central bank model for US cash if available.

ICC made edits to the Market Investment Risk Management section of the RMF. Specifically, ICC deleted redundant language regarding ICC's investment policy that can be found in the ICC Treasury Operations Policies and Procedures.

ICC enhanced the ICC Clearing Participant Risk Management Questionnaire appendix to add more specific details that better capture the intent of the questions contained within.

ICC revised the Overview section of the Clearing Participant Default Management Procedures appendix to refer more generally to ICC's default management procedures, as opposed to offering specific details provided elsewhere within the appendix. ICC also revised the CDS Default Committee subsection to remove language stating that the CDS Default Committee Members are responsible for determining and adjusting minimum target prices for auctions. ICC added language to the Hedging and Liquidation subsection to note that the CDS Default Committee is responsible for assisting ICC with respect to liquidating and hedging positions with the Non-Defaulting CPs, in consultation with the Chief Risk Officer. ICC clarified the Auction Procedures/Competitive Bidding section to state that the auction bidding process will be open for an ICC specific time window, as opposed to a specific 15-minute window.

ICC removed the "Collateral Assets Risk Management Framework" Appendix 7 from the RMF and added it as an appendix to the ICC Treasury Operations Policies and Procedures. Accordingly, references within the Treasury Operations Policies and Procedures to the RMF were updated. Additionally, ICC updated its list of banking relationships contained within the document and updated information regarding its relationship with the Federal Reserve Bank of Chicago. ICC also made conforming, non-material edits to the document.

Finally, ICC has created the Risk Management Model Description Document, which includes the technical risk information previously included in Appendices 3 to 5 of the RMF as well as information previously included in explanatory risk documents. Material changes to the Risk Management Model Description Document will be approved by ICC's Board of Managers and submitted, in the appropriate form to regulators consistent with other documents constituting ICC's risk management framework. The Risk Management Model Description Document includes a technical description of ICC's Initial Margin methodology (Recovery Rate Sensitivity Risk Analysis; Loss Given Default Risk Analysis; Liquidity Risk Analysis; Large Position Risk Analysis; Jump-To-Default Risk Analysis; Interest Rate Sensitivity Risk Analysis; Basic Risk Analysis; Spread Risk Analysis; Multi-Currency Portfolio Treatment; and Portfolio Loss Boundary Condition) and ICC's Guaranty Fund methodology (Guaranty Fund Size Estimation; Guaranty Fund Requirements and Periodic Adjustments; and General Wrong Way Risk and Contagion Stress Tests).

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:

Risk Management: The revisions are consistent with the risk management requirements of Core Principle D. The revised RMF, the revised Treasury Operations Policies and Procedures, and the Risk Management Model Description Document provide additional clarity regarding ICC's risk management framework. ICC believes the proposed revisions provide further clarity and transparency in terms of ICC's risk management policies and procedures. ICC believes clarity and transparency in its risk management policies and procedures is of value to the market in order to provide a comprehensive understanding of ICC's operations.

Amended Rules:

ICC has respectfully requested confidential treatment for the RMF, Treasury Operations Policies and Procedures, and Risk Management Model Description Document which were submitted concurrently with this submission.

Certifications:

ICC hereby certifies that the revised RMF, the revised Treasury Operations Policies and Procedures, and the Risk Management Model Description Document comply with the Act and the regulations thereunder. There were no substantive opposing views to the Rules.

ICC certifies that, concurrent with this filing, a copy of the submission was posted on ICC's website, which 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
Staff Attorney

Enclosures

cc: Kate Meyer, Commodity Futures Trading Commission (by email)
Tad Polley, Commodity Futures Trading Commission (by email)
Eric Nield, ICE Clear Credit (by email)
Michelle Weiler, ICE Clear Credit (by email)