

Maria Zyskind
Staff Attorney

June 3, 2019

Re: Updates to ICC Stress Testing Framework 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 of changes to the ICC Stress Testing 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 revising the ICC Stress Testing Framework. This submission includes a description of the changes to the ICC Stress Testing Framework. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC proposes changes to the Stress Testing Framework to enhance ICC’s stress testing practices. The proposed changes strengthen the documentation surrounding ICC’s stress testing methodology, including by introducing certain core concepts earlier in the Stress Testing Framework, updating terminology to maintain uniformity in the document, and providing additional clarity on the construction and reporting of stress scenarios. The proposed changes also remove a section that is no longer relevant and strengthen governance arrangements related to the identification and remediation of poor stress testing performance. ICC further proposes clarification and clean-up changes throughout the document to enhance readability.

ICC proposes changes to the ‘Methodology’ section of the Stress Testing Framework. Under the proposed changes, ICC will introduce its Cover-2 requirement, including related definitions, earlier in the document, noting that it establishes if financial resources will cover hypothetical losses associated with the two greatest Clearing Participant (“CP”) Affiliate Group (“AG”) uncollateralized stress losses associated with extreme but plausible scenarios. ICC proposes terminology updates, such as utilizing “CP AG” to reference CPs under a common parent entity, replacing a phrase with an abbreviation that was previously introduced, and shortening “Lehman Brothers” to “LB”. ICC proposes conforming changes throughout the document. ICC also proposes a clarification edit to specify the basis for ICC’s stress testing practices.

In the ‘Methodology’ section, ICC proposes to introduce the forward looking (hypothetically constructed) scenarios. Under the proposed revisions, ICC will add language describing the forward looking (hypothetically constructed) scenarios and move two paragraphs on their construction from the ‘Predefined Scenarios’ section to the ‘Methodology’ section. ICC proposes edits for clarity and uniformity

to such paragraphs, including referring to “reference entity groups” as “Risk Factor Groups”¹ (“RFGs”), which ICC also proposes to do throughout the document; defining a CP RFG as a CP AG; specifying the reference entities in a RFG for stress testing; and adding definite article “the” in the phrase “as well as the peak”. ICC proposes to add language further explaining the calculation of Loss-Given-Default (“LGD”) and Expected LGD (“ELGD”) with respect to the forward looking (hypothetically constructed) scenarios.

The proposed changes amend the ‘Predefined Scenarios’ section. The proposed revisions indicate which scenarios are not expected to be realized as market outcomes and utilize bulleted lists to more clearly define the scenarios corresponding to the Historically Observed Extreme but Plausible Market Scenarios and the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios reflecting a baseline credit event. ICC proposes to cross-reference relevant sections when noting information found in those sections and make corresponding changes throughout the document. In describing the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios, ICC proposes to specifically refer to “reference entities” as “Single Name Risk Factors”; incorporate language on the associated adverse credit event analysis; and utilize a bulleted list to more clearly define the scenarios corresponding to the Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios. In discussing the Extreme Model Response Test Scenarios, ICC proposes to add the word “Market” to the phrase “Historically Observed Extreme but Plausible Market scenarios” and to utilize a bulleted list to more clearly define the scenarios corresponding to the Extreme Model Response Test Scenarios.

The proposed amendments move the ‘General Wrong Way Risk and Contagion Stress Tests’ section ahead of the adequacy and sensitivity analysis sections. The ‘General Wrong Way Risk and Contagion Stress Tests’ section is currently located between the adequacy and sensitivity analysis sections, and ICC proposes that it follow the ‘Display of Discordant Behavior among Instrument Groups’ section to avoid disrupting the grouping of adequacy and sensitivity analyses.

ICC proposes to remove the ‘Correlation Sensitivity Analysis based on Monte Carlo Simulations’ section. Given the transition from a stress-based methodology to a Monte Carlo simulations-based methodology for certain components of the Initial Margin model (the “model”),² references to the Monte Carlo sensitivity analysis as a stress testing analysis in the Stress Testing Framework are no longer relevant. ICC considers a sensitivity analysis of risk parameters to be more fitting and incorporated such analysis in the ICC Risk Parameter Setting and Review Policy, which describes the process of setting and reviewing the model core parameters and the performance of sensitivity analyses related to certain parameter settings.³

ICC proposes a clarification update to indicate which scenarios generally yield the greatest consumption of the Guaranty Fund in the ‘Recovery Rate Sensitivity Analysis’ section and the ‘Interest Rate Sensitivity Analysis’ section.

ICC proposes amendments to the ‘Interpretation of Results’ section. ICC proposes to incorporate language that more clearly defines the scenarios corresponding to the Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios. Under the proposed revisions, the ICC reports that are associated with stress scenarios are listed in a table, along with the reporting frequency and classification (e.g., extreme but plausible, extreme and not expected to be realized, etc.), and a paragraph on hypothetical losses follows the table given its connection to the stress scenarios in the table. ICC proposes clarification edits to this paragraph, such as replacing “total” with “sum”, adding a parenthetical, and more generally referring to powers of assessment. Further, ICC proposes that a paragraph describing a figure in the document appear before, instead of after, the figure and that such figure is re-numbered given the addition of the proposed table. With respect to stress test results, ICC proposes to specify that it considers hypothetical losses on a Cover-2 basis and to cross-reference a

¹ ICC deems each single name reference entity a Risk Factor. ICC deems a set of single name Risk Factors related by a common parental ownership structure a RFG.

² See SR-ICC-2018-008 for a description of the transition from a stress-based approach to a Monte Carlo simulations-based methodology for the spread response and recovery rate sensitivity response components of the model.

³ See SR-ICC-2019-002 for a description of the ICC Risk Parameter Setting and Review Policy.

section on the remediation of poor stress testing performance. The proposed changes also note that the Risk Department conducts monthly parameter reviews and parameter sensitivity analyses.

ICC proposes amendments to the 'Post-Stress Testing Review & Governance Structure' section. ICC proposes to cross-reference the table from the 'Interpretation of Results' section when noting information depicted in the table and make corresponding changes throughout the document. ICC proposes to clarify the frequency at which stress testing results are reviewed and risk results and issues are discussed. ICC proposes to note the Risk Committee's role in ad hoc reviews of stress testing results undertaken by the Chief Risk Officer ("CRO") or designee and to more clearly state that ICC conducts certain "periodic" reporting on a weekly basis. Also, the proposed changes provide clarification and direction with respect to poor stress testing performance, including by indicating that ICC considers stress test deficiencies on a Cover-2 basis, specifying the Risk Department's role in identifying poor stress testing performance, and explaining how the Risk Department determines poor stress testing performance. Moreover, the proposed revisions specifically provide the CRO and Risk Oversight Officer ("ROO") with authority to determine poor stress testing performance and describe the actions to take upon identifying poor stress testing performance, including by the Risk Working Group ("RWG") and the Risk Department. In addition, ICC proposes to replace certain general references to the Risk Department with more specific references to the CRO, or designee.

ICC proposes to update the 'References' section with two ICC policies that provide further information on ICC Risk Department practices, including the calculation of LGD and ELGD and the performance of monthly parameter reviews and parameter sensitivity analyses.

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 revisions to the ICC Stress Testing Framework are consistent with the financial resources requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The proposed revisions support ICC's ability to maintain sufficient risk requirements and enhance ICC's approach to identifying potential weaknesses in the risk management system by incorporating additional procedures related to the identification and remediation of poor stress testing performance, thereby ensuring that ICC maintains sufficient financial resources to withstand, at a minimum, the default of the two CP AGs 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 revisions to the ICC Stress Testing Framework 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 changes provide further clarity and transparency regarding ICC's stress testing practices, including by strengthening the documentation surrounding ICC's stress testing methodology through the introduction of certain core concepts earlier in the document, updates to stress testing terminology to maintain uniformity, and additional clarity on the construction and reporting of stress testing scenarios. The clarification and clean-up changes that enhance readability further ensure that the documentation of ICC's Stress Testing Framework remains up-to-date, clear, and transparent. The proposed changes serve to promote the soundness of ICC's risk management system, thereby ensuring that ICC possesses the ability to manage the risks associated with discharging its responsibilities, consistent with the risk management requirements of Core Principle D.

Amended Rules:

The proposed changes consist of changes to the ICC Stress Testing Framework. ICC has respectfully requested confidential treatment for the ICC Stress Testing Framework, which was submitted concurrently with this self-certification submission.

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>

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,

A handwritten signature in cursive script that reads "Maria Zyskind".

Maria Zyskind
Staff Attorney