



Maria Alarcon
Manager, Legal

June 10, 2022

Re: Updates to ICC Model Validation Framework Related to Model Validation Processes 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 of changes to the ICC Model Validation Framework (the “Model Validation Framework” or “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 Framework, which provides assurances that ICC models are performing as expected. This submission includes a description of the changes to the Framework. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The proposed amendments include clarifications on the scope and applicability of the Framework, responsibilities of relevant stakeholders, and other validation elements. Additional proposed changes reorganize certain portions of the Framework and make language clarifications to promote readability. The changes are described in detail as follows.

ICC proposes amendments to Section 1 containing the introduction. To introduce the purpose of the Framework more clearly, ICC proposes to begin the document with an overview in Subsection 1.1. The revision history of the Framework would be moved to the end of the document. Proposed new language in Subsection 1.1 describes ICC’s clearing approach that utilizes various models as part of its risk processes. For clarity, the definition of a model and the purpose of validation is included. Relevant language from current Subsection 1.1 is accordingly moved to Subsection 1.2 and certain other language is removed as described below.

Amended Subsection 1.2 applies the Framework to clearing house models, rather than risk management system models. ICC proposes these revisions to expand the scope of the Framework. The current language directly applies the Framework to ICC’s risk management system models (i.e., those relating to financial resources and liquidity resources). The proposed revisions clarify that the Framework applies to all ICC models, which would include an additional model relating to counterparty credit. Accordingly, the changes frame the components that make up a model (“model components”) in terms of ICC’s models rather than its risk management system. Information in current Subsection 1.1 regarding risk drivers would be removed to avoid confusion as it is specific to risk management system models and not relevant elsewhere in the document. Detailed information regarding risk drivers and ICC’s risk management system is more appropriate in ICC’s risk policies. ICC would continue to distinguish between new, enhanced, and retired



model components (collectively, “model change”). References to the risk management system are replaced with references to models in Section 1 and throughout the document. ICC’s Model Inventory, which lists ICC models, is introduced in this subsection instead of later in the document. Additional procedures are incorporated for consulting with the Risk Committee regarding adding, enhancing, or retiring models or model components.

Amended Subsection 1.3 includes language from current Subsection 2.2 pertaining to materiality classifications of model changes. The language remains mostly the same with a small update to spell out an abbreviated term. Such language is more fitting in the introductory section, as it provides the foundation of how ICC views model changes in terms of materiality.

New Subsection 1.4 contains language from current Subsection 1.2 with certain clarifications. Specifically, Subsection 1.4 applies the development process set out in the document to new model and model change development rather than just model change development. This is intended to be a clarification and would not change how ICC develops new models. The development process continues to include design, implementation, user-acceptance testing, and deployment phases.

ICC also proposes revisions to Section 2 containing information on Framework oversight. The Risk Oversight Officer (“ROO”) continues to be responsible for the operation and maintenance of the Framework under Subsection 2.1. Since language from Subsection 2.2 is moved, the following subsections are renumbered accordingly. Amended Subsection 2.2 details how a team of independent validators meets the criteria for independence and technical expertise. Minor changes pertaining to the ROO’s responsibilities are also included. In Subsection 2.3, a redundant statement is removed and minor language clarifications are made. In Subsection 2.4, ICC would specify that the Model Inventory holds key information about all ICC models, model components, and model changes. The Model Inventory is maintained by the ROO, who would review it with the ICC Risk Department.

ICC further proposes amending Section 3 describing the Framework controls. Subsection 3.1 takes language (including Figure 1) from current Subsection 1.3, which provides an overview of the Framework controls. This information is more appropriate in Section 3, which covers Framework controls. The following subsections are renumbered accordingly and continue to describe the same four controls.

Revisions regarding initial validations are made in Subsection 3.2. Subsection 3.2.2 specifies that an independent initial validation is required for all new models. Updates to part (a) and throughout the subsection clarify that the validation may consider new models or model change. Proposed language in part (b) describes the validation report deliverable in more detail, noting certain information the report should include. This is not a new requirement and is intended to reflect and memorialize current and good practices to ensure reports are effective. Amended part (c) includes minor changes regarding the presentation of the report to the Risk Committee, including the role of the ROO and the presentation scope, which are not new requirements and are intended to reflect current practices.

Minor updates are included in Subsection 3.3. ICC proposes to more generally refer to certain policies in Subsection 3.3.1 and to remove references to specific policies in Subsection 3.3.3. ICC considers such references unnecessary, as the Framework is not intended to introduce other policies. ICC also proposes a clarification in Subsection 3.3.3 that it performs several types of outcome analyses comparing model results to corresponding actual or hypothetical outcomes (e.g., stress testing and back testing).

ICC proposes amending Subsection 3.5 related to independent periodic reviews. ICC proposes to begin by referencing applicable regulations on its requirement to perform independent periodic reviews. Information on the Chief Risk Officer’s responsibilities is moved to the end. ICC continues to ensure that not more than twelve months passes between each independent periodic review. Additional references to the twelve-month period are referred to generally as the review cycle. For models that are not subject to the annual requirement, proposed language directs the ROO, in consultation with the Risk Committee, to set an



established periodicity for independent periodic review. Currently, the ROO as the individual responsible for the operation and maintenance of the Framework determines the appropriate periodicity of review for models, in consultation with the Risk Committee. Such language is intended to memorialize current practices and formalize the requirement in the Framework. In Subsection 3.5.1, ICC proposes updates to an independent periodic review component, including when it is not applicable, to ensure that ICC adequately addresses any open items. In Subsection 3.5.2, ICC proposes to describe the independent periodic review report deliverable in more detail, noting certain information the report should include, to reflect and memorialize current and good practices to ensure reports are effective. ICC also proposes minor changes regarding the presentation of the report to the Risk Committee, including the role of the ROO and the presentation scope, which are not new requirements and are intended to reflect current practices. Additional information regarding remediation of items in the reports is proposed, including required consultations with the Risk Committee on remedial actions and timelines. Such updates ensure that ICC remediates high priority items as soon as possible and considers any applicable governance or regulatory actions or technology implementations in timelines for remedial actions. Currently, ICC consults with the Risk Committee on remedial action timelines and closure of items. The proposed language is intended to memorialize current practices and formalize the requirement in the Framework. New Subsection 3.5.3 proposes procedures for ad hoc reviews of methodologies that are not considered models under the Framework. Finally, ICC proposes an appendix that clearly sets out the current ICC models.

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 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 changes facilitate and enhance ICC’s ability to carry out its validation processes and procedures in respect of the models utilized as part of ICC’s risk processes or other methodologies. The changes strengthen the Framework and ensure completeness by expanding the scope to clearing house models, adding procedures regarding ad hoc reviews of methodologies to ensure objective and effective review, and incorporating procedures regarding remedial actions and timelines to ensure remediation of report items in an appropriate and timely manner. ICC believes that such changes enhance ICC’s ability to manage risks and ensure that ICC continues to maintain sufficient financial resources to withstand, at a minimum, the default of the two Clearing Participant Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions.

Risk Management: The changes to the Framework are consistent with the risk management requirements of Core Principle D and Commission Regulation 39.36(e). The amendments incorporate applicable regulatory requirements and procedures related to annual validation cycles and periodic reviews. The changes ensure that ICC receives independent and effective model validations and that ICC performs model validations in accordance with applicable regulations, including the requirements of Commission Regulation 39.36(e). The amendments facilitate and enhance ICC’s ability to fulfill its model validation requirements in respect of the models utilized as part of ICC’s risk processes and thus promote overall risk management and stability of ICC. Such procedures continue to ensure that ICC possesses the ability to manage the risks associated with discharging its responsibilities.

Amended Rules:

The proposed changes consist of amendments to the Model Validation Framework. ICC has respectfully requested confidential treatment for the Model Validation 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 black ink that reads "Maria Alarcon". The signature is written in a cursive, flowing style.

Maria Alarcon
Manager, Legal