

Sarah Williams
Staff Attorney

June 20, 2017

**Re: Revisions to the ICC End-of-Day Price
Discovery Policies and Procedures Pursuant
to Section 5c(c)(1) of the Commodity
Exchange Act and Commission Regulation
40.6(a)**

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), a self-certification of revisions to the ICC End-of-Day Price Discovery Policies and Procedures (“Pricing Policy”) related to the market variability bid-offer width (“BOW”) scaling methodology. ICC is registered with the Commission as a derivatives clearing organization (“DCO”). ICC intends to make the Pricing Policy revisions 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 revising its Pricing Policy to make changes related to the market variability BOW scaling methodology. These revisions do not require any changes to the ICC Clearing Rules. This submission includes a description of the Pricing Policy revisions. Certification of the revisions to the Pricing Policy pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC proposes revising its Pricing Policy to make changes related to the market variability BOW scaling methodology. Specifically, ICC proposes the introduction of an automated assessment of market variability and, if appropriate, an automatic widening of BOWs. This automated assessment feature was initially incorporated in the Pricing Policy as a considered future enhancement; ICC now wishes to update the policy to implement the enhancement.

Each business day, ICC determines end-of-day levels through its established price discovery process, based on end-of-day submissions from its Clearing Participants. ICC uses these levels for mark-to-market and risk management purposes. As part of its price discovery process, ICC determines BOWs for each clearing-eligible instrument. The price discovery process uses the BOWs as inputs in the determination of end-of-day levels and Firm Trades. ICC has developed systems that automatically determine the BOW to use for each clearing-eligible instrument. These systems rely on BOW information from intraday market data to make this determination. To ensure ICC’s systems, informed by the available intraday data, are determining appropriate BOWs, the Risk Department currently monitors the markets and has the ability to over-ride the system-determined BOWs. During periods of high market variability, there can be a significant number of adjustments required to be manually determined and manually input into ICC’s systems in a short period, introducing operational risk. ICC’s proposal reduces this operational risk by

replacing the manual determination and manual adjustments with well-defined algorithmic adjustments executed automatically by ICC's systems.

ICC proposes to introduce an automated widening of BOWs when there may be a potential discrepancy between the BOWs determined using the current process, and the dispersion of the end-of-day submissions provided to ICC, due to uncertainty in market mid-levels at the time those submissions are required. To determine when a potential for such discrepancy may exist, and by how much to widen the BOWs, ICC introduces a new metric, Variability Level, which it computes based on the intraday movement in mid-levels relative to the pre-defined BOWs established through its current procedures for extreme market conditions.

ICC also proposes clean-up changes to the Pricing Policy, including removing details of a planned (never implemented) addition of an intraday quote filtering algorithm and moving the description of the current process from a footnote to the main body of the document, and updating inaccurate table references throughout the policy.

Variability Level Determination

Under the proposed enhancement, ICC computes a Variability Level for the on-the-run instrument in each of the major index families that it clears. For each instrument, ICC's systems establish a time series of intraday mid-levels from available market data. For intraday mid-levels falling outside of one pre-defined BOW from the prior day's end-of-day level, the Variability Level is the maximum deviation of the time series from the prior end-of-day level divided by the pre-defined BOW. For intraday mid-levels falling within one pre-defined BOW from the prior day's end-of-day level, the Variability Level is set to 1.0 if the range of mid-levels in the time series is less than or equal to the pre-defined BOW, and set to 1.2 if the range of mid-levels in the time series is greater than the pre-defined BOW. ICC establishes Variability Bands that correspond to specific ranges of Variability Level in order to classify the magnitude of the observed variability into band 0, 1, 2, etc. Variability Band 0 is the lowest range of Variability Level, Variability Band 1 is the next higher range of Variability Level, and so on.

Market-Proxy Variability Bands

Under the proposed enhancement, to create a measure of the level of variability for North American (CDX), European (iTraxx), Emerging Market and Asia Pacific markets, ICC assigns each of the index instruments for which it determines a Variability Band to one of those markets. For example, ICC assigns CDX.NA.IG and CDX.NA.HY instruments to the North American market. ICC determines the Market-Proxy Variability Band for each market as the largest Variability Band computed for any of the index instruments assigned to that market.

Determination of EOD BOWs for Index Instruments

ICC's current price discovery process for index instruments selects between one of three pre-defined BOWs, based on which is most representative of the BOWs observed in intraday market data. The pre-defined Regime 1 (normal), Regime 2 (volatile) and Regime 3 (extreme) BOWs are progressively wider. The proposed enhancement adjusts the regime selected by the current process depending on the computed Market-Proxy Variability Band for the market to which ICC has assigned the given instrument. The adjustment is none, one regime (moving from Regime 1 to Regime 2 or from Regime 2 to Regime 3), and two regimes (moving from Regime 1 to Regime 3 or from Regime 2 to Regime 3). Higher Market-Proxy Variability Bands result in a larger adjustment. ICC assigns index instruments to specific markets based on the region related to the reference entities of their constituent.

Determination of EOD BOWs for Single Name ("SN") Instruments

ICC's current price discovery process derives BOWs for SN instruments based on the BOWs quoted in intraday market data, and applies certain scaling factors to arrive at the EOD BOW for SN instruments. The proposed enhancement applies an additional scaling factor to the BOWs derived by the current process, depending on the computed Market-Proxy Variability Band for the market to which ICC assigns the given instrument. The scaling factors start at 1 (no adjustment) and are larger for higher Market-Proxy Variability Bands. ICC assigns SN instruments to markets based on the region related to the reference entity of the instrument.

Determination of Consensus BOWs and Correction of Inaccurate Table References

The current version of the Pricing Policy includes details of an intraday quote filtering algorithm, which was, at the time of inclusion, a planned enhancement and which has never been implemented to determine consensus BOWs. ICC proposes deleting the text describing such algorithm. The text describing ICC's current practices for determining consensus BOWs is currently set forth in a footnote within the policy. ICC proposes moving this description into the main text of the policy. ICC has also corrected inaccurate table references throughout the policy.

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:

Settlement Procedures: The revisions to the Pricing Policy are consistent with the settlement procedures requirements of Core Principle E, as the proposed revisions allow for the automatic adjustment of BOWs to appropriate levels during periods of high market variability, thus assisting ICC in ensuring it maintains market appropriate BOWs in all market conditions. Appropriate BOWs ensure ICC maintains an accurate and effective EOD price discovery process, which includes the determination of EOD pricing levels and Firm Trade determinations.

Risk Management: revisions to the Pricing Policy are consistent with the risk management requirements of Core Principle D, as the proposed revisions assist ICC in ensuring it maintains market appropriate BOWs, which are used as an input in the determination of end-of-day levels, which are used for risk management purposes.

Amended Rules:

The proposed change consists of revisions to ICC's Pricing Policy to make changes related to the market variability BOW scaling methodology. ICC has respectfully requested confidential treatment for the Pricing Policy which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the revisions to the Pricing Policy comply with the Act and the regulations thereunder. There were no substantive opposing views to the revisions.

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) 836-6883.

Sincerely,



Sarah Williams
Staff Attorney