



Maria Alarcon
Manager, Legal

July 6, 2022

Re: Updates to Stress Testing Framework and Liquidity Risk Management 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 Stress Testing Framework (“STF”) and the Liquidity Risk Management Framework (“LRMF”). 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 to amend the STF and LRMF to introduce new stress scenarios, clarify existing stress scenarios, and make other minor edits. This submission includes a description of the changes to the STF and LRMF. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

I. STF

The proposed amendments to the STF introduce new stress scenarios related to the Coronavirus pandemic and oil price war (the “COVID-19/Oil Crisis”), clarify existing stress scenarios related to credit default index swaptions (“index options”), and make other minor edits.

The proposed changes amend Section 5.1 containing the historically observed extreme but plausible market scenarios. ICC proposes a minor edit to abbreviate a term. ICC proposes to introduce additional stress scenarios related to the COVID-19/Oil Crisis. ICC previously introduced price-based stress scenarios related to the COVID-19/Oil Crisis in the STF, which replicate observed instrument price changes during this period.¹ ICC proposes to incorporate complementing spread-based stress scenarios related to the COVID-19/Oil Crisis, which reflect observed relative spread increases and decreases during this period (the “COVID-19/Oil Crisis Spread Scenarios”). Additionally, the stress scenarios related to index options (i.e., the stress options-implied Mean Absolute Deviation (“MAD”) scenarios) would be moved into a separate section and corresponding references throughout the STF would accordingly refer to this new Section 9.

¹ See Submission Number 2007-1014-1830-99, dated July 10, 2020, for additional information on the introduction of the COVID-19/Oil Crisis price-based stress scenarios.



ICC proposes additional clarifications in Section 5 and throughout the STF. To distinguish from the COVID-19/Oil Crisis Spread Scenarios, ICC would refer to the price-based stress scenarios as the COVID-19/Oil Crisis Price Scenarios in Section 5.2 and throughout the STF. ICC also proposes to incorporate the COVID-19/Oil Crisis Spread Scenarios in the other categories of scenarios, namely in Section 5.3 (hypothetically constructed (forward looking) extreme but plausible market scenarios) and Section 5.4 (extreme model response test scenarios), as well as in Section 14 (interpretation of results).

ICC proposes further details to describe how the existing stress scenarios for index option positions are integrated within the current set of stress scenarios for CDS index and single name instruments. Currently, the stress options-implied MAD scenarios are generated for index option positions. Such scenarios are not applied to portfolios independently but rather directly incorporated into the CDS stress scenarios. As such, the proposed changes clarify that the stress options-implied MAD scenarios complement the underlying stress scenarios (in Section 6) and reference proposed Section 9 for more detail on the stress options-implied MAD approach (in Section 8).

Moreover, proposed Section 9 memorializes the stress options-implied MAD scenarios and approach more clearly. Information from Section 5.1 on these scenarios would reside in Section 9 with certain amendments. The proposed amendments do not change the stress testing methodology and instead add detail and update terminology to be clearer. Proposed language explains that when index options are present in a portfolio, the underlying market stress test scenarios incorporate the stress options-implied MAD scenarios. Terminology changes specify that the scenarios consider an increase/decrease in the options-implied MAD upon spread widening/tightening and clarification changes detail the incorporation of the options-implied MAD in the scenarios. The proposed changes more clearly set forth the creation of the stress options-implied MAD, including how the necessary components are derived. No changes are proposed with respect to what the final scenario prices of the index option instruments reflect. The following sections are renumbered accordingly throughout the STF, including in Table 1 in Section 14. Finally, proposed Section 17 adds a revision history to track changes.

II. LRMF

ICC proposes corresponding changes to the LRMF to introduce new stress scenarios related to the COVID-19/Oil Crisis, clarify existing stress scenarios related to index options, and make other minor edits.

ICC proposes to revise Section 2.3 regarding liquidity requirements for client-related accounts. The amended language specifies that Clearing Participants deposit 100% of their Euro denominated client gross margin in any acceptable collateral to match Schedule 401 in the ICC Rules. This is intended to be a clean-up change to remove an outdated provision to ensure consistency across the LRMF and ICC Rules and would not change current requirements.

ICC proposes updates to Section 3.3.2 regarding the historically observed extreme but plausible market scenarios. The proposed changes define extreme market events to include COVID-19 and the simultaneous occurrence of the oil price war and make grammatical edits to change a term to its plural form. ICC also previously introduced the COVID-19/Oil Crisis price-based stress scenarios in the LRMF² and proposes to incorporate the complementing COVID-19/Oil Crisis Spread Scenarios, which are also referred to as the COVID19OCSS, in the LRMF. The price-based stress scenarios would be referred to as the COVID-19/Oil Crisis Price Scenarios or COVID19OCPS throughout the document.

Revisions to the existing stress options-implied MAD scenarios are proposed in Section 3.3.2. To ensure consistency with the STF, ICC proposes the inclusion of similar language and changes in subsection (b). The proposed changes memorialize the stress options-implied MAD scenarios and approach more clearly

² Id.



in the LRMF, including how the scenarios for index option positions are integrated within the current set of stress scenarios for CDS index and single name instruments. The proposed amendments do not change the methodology and instead add detail and update terminology to be clearer. Terminology changes specify that the scenarios consider an increase/decrease in the options-implied MAD and clarification changes detail the incorporation of the options-implied MAD in the scenarios. The proposed changes more clearly set forth the creation of the stress options-implied MAD, including how the necessary components are derived. No changes are proposed with respect to what the final scenario prices of the index option instruments reflect. A typographical fix is made in the footnotes to refer to the correct reference document. In addition, ICC proposes to amend subsection (d) to add a section symbol and to set out how the stress options-implied MAD scenarios that complement the extreme model response test scenarios are derived to match language currently in the STF.

ICC proposes additional minor updates to Section 3.3. ICC would incorporate the COVID-19/Oil Crisis Spread Scenarios in Section 3.3.3 in Table 1 containing the liquidity stress testing scenarios and in Section 3.3.4 related to the interpretation of results. ICC also proposes a minor edit to the extreme market scenarios in Table 1 to specify that the COVID19OCPS are extreme.

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 changes to the STF and LRMF are consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33. The introduction of the COVID-19/Oil Crisis Spread Scenarios would complement the current scenarios. Additional proposed changes ensure consistency across the STF and LRMF and more clearly describe the stress options-implied MAD scenarios. The amendments would thus support ICC’s ability to maintain its financial resources and withstand the pressures of defaults, consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33.

Risk Management: The changes to the STF and LRMF are consistent with the risk management requirements of Core Principle D and Commission Regulations 39.13 and 39.36. The changes introduce spread-based COVID-19/Oil Crisis scenarios that complement the current scenarios and memorialize the stress options-implied MAD scenarios more clearly to ensure transparency. The additional clarification and clean-up changes further ensure readability and clarity. ICC believes that having policies and procedures that clearly and accurately document its risk management practices, including stress testing and liquidity stress testing, are an important component to the effectiveness of ICC’s risk management system. The amendments continue to ensure that ICC possesses the ability to manage the risks associated with discharging its responsibilities, consistent with the risk management requirements of Core Principle D. ICC’s risk management practices will also continue to be performed in accordance with the standards and practices set forth in Commission Regulations 39.13 and 39.36.

Amended Rules:

The proposed changes consist of amendments to the STF and LRMF. ICC has respectfully requested confidential treatment for the STF and LRMF, which were submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the changes to the STF and LRMF 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