

**Maria Alarcon**  
Staff Attorney

July 10, 2020

**Re: Updates to ICC Risk Management Framework, ICC Risk Management Model Description, ICC Risk Parameter Setting and Review Policy, ICC Stress Testing Framework, and ICC 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 21<sup>st</sup> 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 its Risk Management Framework (“RMF”), Risk Management Model Description (“RMMD”), Risk Parameter Setting and Review Policy (“RPSRP”), Stress Testing Framework (“STF”), and 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 revising its RMF, RMMD, RPSRP, STF, and LRMF. This submission includes a description of the changes to ICC’s RMF, RMMD, RPSRP, 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.

The proposed amendments would update certain stress scenario naming conventions to be more generic and introduce stress scenarios related to the Coronavirus pandemic and oil price war in March 2020 (“COVID-19/Oil Crisis Scenarios”). The proposed amendments would also make clarification changes, including adding additional transparency and clarity with respect to ICC’s liquidity risk management practices. ICC proposes to move forward with implementation of such changes once it is permitted to do so under applicable regulations.<sup>1</sup> The proposed revisions are described in detail as follows.

<sup>1</sup> ICC has filed with the Commission changes related to clearing credit default index swaptions (“Index Swaptions”), which ICC intends to implement after it completes its governance process surrounding the Index Swaptions product expansion and it is permitted under Commission regulation to implement the changes described in any related policies and procedures. Submission Number 1907-1516-4754-53, dated July 15, 2019; Submission Number 2001-1415-3739-55, dated January 14, 2020; Submission Number 2006-1815-5824-31, dated June 18, 2020. ICC similarly proposes to implement any changes in this filing that impact the documentation in respect of Index Swaptions after it completes its governance process surrounding the Index Swaptions product expansion and it is permitted under Commission regulation to implement the changes described in any related policies and procedures.

## **I. Updated Stress Scenario Naming Conventions and Clarifications**

The proposed revisions consist of replacing naming conventions for stress scenarios associated with the Lehman Brothers (“LB”) default with more generic naming conventions associated with extreme price changes, namely extreme price decreases and increases (the “Extreme Price Change Scenarios”).

### **Risk Management Framework**

ICC proposes to replace references to the LB default with more generic references to extreme market events. Currently, to achieve anti-procyclicality (“APC”) of initial margin requirements, Section IV.B.1 discusses two price based scenarios, associated with price decreases and increases, and states that the considered stress price changes are derived from market behavior during and after the LB default period. ICC proposes to replace the LB default with a reference to extreme market events to state that the considered stress price changes are derived from extreme market events related to the default of a large market participant, global pandemic problem, regional or global economic crisis. Moreover, to achieve APC of Guaranty Fund sizing, Section IV.E.1 of the current RMF discusses two price based scenarios, associated with price decreases and increases, and states that the considered stress price changes are derived from market behavior during and after the LB default period. ICC proposes to similarly replace the LB default with a reference to extreme market events.

### **Risk Management Model Description**

ICC proposes related changes to incorporate the Extreme Price Change Scenarios into the RMMD. ICC would replace references and notations to the scenarios associated with the LB default with the Extreme Price Change Scenarios throughout the document in both the Initial Margin and Guaranty Fund Methodology sections. ICC would introduce the Extreme Price Change Scenarios in Section VII.3.3, which discusses APC measures. Currently, this section examines instrument price changes observed during the LB default. As amended, this section would examine instrument price changes observed during extreme market events and would include considerations related to the greatest price decreases and increases over a number of consecutive trading days during the period of extreme market events. This section would also state that the Extreme Price Change Scenarios reflect extreme market events related to the default of a large market participant, global pandemic problem, regional or global economic crisis and would explain how these scenarios are derived. Moreover, this section would introduce a factor that would be associated with one of the Extreme Price Change Scenarios and reference the RPSRP for details on how it is set. In the context of Index Swaptions, the formulas used would also be updated to reference the Extreme Price Change Scenarios in Section VII.3.3 and minor clarifications would be included for certain descriptions associated with option instruments in respect of the remaining time to expiry in Sections VII.3.3 and X.3.1.

ICC also proposes other minor clarification or clean-up changes to the RMMD. Specifically, ICC proposes to add language to clarify a notation in an equation in Section VII.1.2.1 and update cross-references in Section IX.

### **Risk Parameter Setting and Review Policy**

ICC proposes corresponding changes that incorporate the Extreme Price Change Scenarios into the RPSRP. Table 1 in Section 1.1 contains ICC’s core model parameters and would be amended to incorporate the abovementioned factor associated with one of the Extreme Price Change Scenarios. In Section 1.7, ICC proposes another category of parameters associated with the integrated spread response model component, namely the APC level parameters, and a new subsection to correspond to this category. ICC proposes to introduce the Extreme Price Change Scenarios in this subsection. As discussed above, the Extreme Price Change Scenarios consider the greatest observed price decreases and increases over a number of consecutive trading days within the period of extreme market events related to the default of a large market participant, global pandemic problem, regional or global economic crisis. Moreover, ICC would set out how these scenarios are derived as well as how the abovementioned

factor is estimated. ICC would further summarize the associated review and governance process, including the reviewers and any prerequisites to the implementation of parameter updates.

## **II. Introduction of New Stress Scenarios and Clarifications**

The proposed changes to the STF and the LRMF introduce the COVID-19/Oil Crisis Scenarios. Additional proposed changes to the LRMF provide transparency and clarity with respect to ICC's liquidity risk management practices and ensure scenario unification among the STF and LRMF as ICC operates its stress testing and liquidity stress testing on a unified set of stress testing scenarios.

### **Stress Testing Framework**

ICC proposes to amend the STF to introduce the COVID-19/Oil Crisis Scenarios. In Section 3, ICC would define extreme market events to include the Coronavirus pandemic and the simultaneous occurrence of the oil price war. In Section 5, the category of scenarios deemed as Historically Observed Extreme but Plausible Market Scenarios: Severity of Losses in Response to a Baseline Credit Event would be renamed more generally to Historically Observed Extreme but Plausible Market Scenarios: Severity of Losses in Response to Baseline Market Events and the associated description would be updated to replace the LB default with a more general description of extreme market events (i.e., events related to the default of a large market participant, global pandemic problem, and regional or global economic crisis). ICC proposes conforming changes to Section 5.2, which corresponds to this category of scenarios, including updating the heading and adding a general description of the category followed by the associated scenarios, which would include the COVID-19/Oil Crisis Scenarios, in bulleted form. ICC also proposes to incorporate reference to the COVID-19/Oil Crisis Scenarios into the other categories of scenarios, namely Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios and Extreme Model Response Test Scenarios in Sections 5.3 and 5.4, respectively, and to replace references to LB default with more general references to baseline market events and price changes in Section 5.4. In Section 13, ICC proposes to add the COVID-19/Oil Crisis Scenarios to the list of Historically Observed and Hypothetically Constructed Extreme but Plausible Scenarios. Also, in Section 13, ICC proposes to remove a footnote to avoid redundancy as such information can be found in the text of Section 14.

### **Liquidity Risk Management Framework**

The proposed amendments to the LRMF incorporate the COVID-19/Oil Crisis Scenarios, provide additional clarity with respect to ICC's liquidity risk management practices, and ensure unification of the LRMF and STF, including with respect to scenario descriptions and governance procedures.

ICC proposes revisions to Section 2 to provide additional clarity on ICC's liquidity risk management practices. ICC would add explanatory language classifying scenarios as "extreme and not expected to be realized" and "extreme but plausible" based on risk horizons in Section 2.3 and reference such classifications throughout the document, particularly in Section 3. ICC would clarify actions that it can take only in the event of a CP default, specifically related to pledgeable collateral in Section 2.6, and actions that it can take irrespective of a CP default or non-default scenario, related to accessing committed repurchase ("repo") and committed foreign exchange ("FX") facilities in Section 2.7. ICC proposes revisions to Section 2.8 that describes ICC's liquidity waterfall, which defines the order, to the extent practicable, that ICC uses its available liquid resources ("ALR") to meet its currency-specific cash payment obligations. ALR consist of the available deposits currently in cash of the required denomination, and the cash equivalent of the available deposits in collateral types that ICC can convert to cash, in the required currency of denomination, rapidly enough to meet the relevant, currency-specific deadlines by which ICC must meet its liquidity obligations ("ICC Payout Deadlines"). Under the amendments, to enable an assessment of the impact of a service provider becoming unavailable and/or overnight investments not unwinding by the relevant ICC Payout Deadlines, the cash on deposit component of ALR considered across all levels of the liquidity waterfall may be adjusted to be a portion, the Available Percentage ("AP"), of the actual cash on deposit. The proposed amendments further discuss the determinations of ALR if the analysis assumes the use of the committed repo facilities.

ICC proposes amendments to Section 3.3 that provide additional clarity or promote consistency between the STF and LRMF. The proposed changes add background on ICC's stress testing analysis and reorganize Section 3.3 into four parts. Proposed Section 3.3.1 describes ICC's stress test methodology that uses a set of stress scenarios and establishes if the ALRs are sufficient to cover hypothetical liquidity obligations. This section also includes language describing the Forward Looking (Hypothetically Constructed) Scenarios that is consistent with the STF, such as details on their construction and on the calculation of Loss-Given-Default ("LGD") and Expected LGD with respect to these scenarios. Proposed subpart (a) details ICC's cover-2 analysis, which demonstrates to what extent the required liquidity resources available to ICC were sufficient to meet single and multi-day cover-2 liquidity obligations under the considered scenarios.

Proposed Section 3.3.2 sets forth the predefined scenarios that ICC maintains for liquidity stress testing and is divided into the following consistent with the STF: (a) Historically Observed Extreme but Plausible Market Scenarios, (b) Historically Observed Extreme but Plausible Market Scenarios: Severity of Losses in Response to Baseline Market Events, (c) Hypothetically Constructed (Forward Looking) Extreme but Plausible Market Scenarios, and (d) Extreme Model Response Tests. ICC would incorporate the COVID-19/Oil Crisis Scenarios in part (b) and amend the terminology describing the LGD scenarios in part (c), including by consistently referring to reference entity groups as Risk Factor Groups ("RFGs"),<sup>2</sup> more specifically defining references entities and CP RFGs, and specifying the reference entities in a RFG for stress testing. In part (c), ICC would clarify its description of the one-service-provider-down scenarios which consider a reduction in ALR designed to represent ICC's exposure to service providers at which it maintains cash deposits, invested cash deposits or collateral against invested cash deposits, due to ICC's potential inability to access those accounts when required. ICC also proposes to update terminology to incorporate the AP in part (c) and add details on the ICC Risk Department's analysis of the AP.

ICC proposes additional amendments to Section 3.3.3 regarding its stress testing analysis approach. ICC proposes to add explanatory language related to portfolios that present specific wrong way risk and regarding sequencing defaulting CP AGs for stress scenarios. Table 1, which lists scenarios used in ICC's liquidity stress testing and assigns each scenario to a group for reporting purposes, would be amended to incorporate additional columns detailing the corresponding report and classification/frequency and reorganized to add additional groups and scenarios (e.g., the COVID-19/Oil Crisis Scenarios) for completeness.

In proposed Section 3.3.4, ICC discusses its interpretation of liquidity stress test results, including governance procedures for enhancing the liquidity risk management methodology and procedures to meet its reporting obligations. Proposed Figure 2 further illustrates ICC's categorization of hypothetical losses. Specifically, depending on whether there are sufficient liquidity resources across certain levels of the liquidity waterfall, stress test results could be in one of three zones (green, yellow, or red) that have different reporting requirements. Results in the red zone are considered poor and reporting to the ICC Risk Committee or the Board would be required.

ICC proposes additional clarification changes to the LRMF. ICC proposes language in Section 4.3 regarding its determination of poor stress testing and/or historical analysis, noting the ICC individuals responsible for making such determination, who would be the same individuals designated in the STF as responsible for determining poor stress testing performance. Proposed Section 6 is an appendix that sets forth the computation of liquidity resources and remaining liquidity resources across the levels of the liquidity waterfall, including formulas for calculating currency-specific cash ALRs and currency-specific cash remaining ALRs. Such changes are explanatory and do not amend the methodology. ICC also proposes to update Table 2, which illustrates a specific report, to reorganize and include additional groups to be consistent with amended Table 1.

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<sup>2</sup> 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.

ICC proposes other minor clarification or non-material clean-up changes to the LRMF. The proposed revisions update terminology to clarify an objective of the framework in Section 1.3 and abbreviate a defined term in Section 1.4. The proposed changes also add quotation marks around a defined term in Section 2.3; clarify ICC's use of ALR in Section 2.8, including by moving two sentences earlier in the section and incorporating reference to required currencies of denomination; and rephrase a sentence for clarity in Section 2.8.4. ICC proposes to include terminology updates with respect to the scenarios described in Sections 3.1 and 3.3 for consistency and clarity and to amend Section 3.3.2 to make certain terms lowercase, renumber subsections, update formatting, and add and update relevant cross-references. Additionally, ICC proposes minor terminology clarifications in describing its stress test analysis in Section 3.3.3 and ICC's governance procedures in Sections 4.1 through 4.3, such as making certain terms lowercase, more clearly describing certain terms, and abbreviating defined terms.

#### 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 are consistent with the financial resources requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The introduction of the COVID-19/Oil Crisis Scenarios would complement the current scenarios in the documentation and add additional insight into potential weaknesses in the ICC risk management methodology, thereby supporting ICC's ability to manage its financial resources. The proposed amendments would thus strengthen ICC's ability to maintain its financial resources and withstand the pressures of defaults. As such, ICC will continue to maintain sufficient financial resources to withstand, at minimum, the default of the two Clearing Participant Affiliate Groups 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 amendments are consistent with the risk management requirements of Core Principle D and the risk management requirements set forth in Commission Regulations 39.13 and 39.36. The proposed revisions strengthen the STF and LRMF through the introduction of the COVID-19/Oil Crisis Scenarios, which would complement the current scenarios and add additional insight into potential weaknesses in the ICC risk management methodology. The proposed changes updating the stress scenario naming conventions to be more generic afford ICC with the necessary flexibility to update such stress scenarios, thereby strengthening the documentation of the RMF, RMMD, and RPSRP and ensuring that the documentation remains up-to-date, transparent, and focused on clearly articulating the policies and procedures used to support ICC's risk management system. The proposed clarification and clean-up changes would further ensure readability and transparency, including with respect to ICC's risk methodology and practices in the RMMD and ICC's liquidity risk management practices in the LRMF. For instance, in the LRMF, the proposed amendments provide further clarity and transparency regarding ICC's liquidity stress testing practices to strengthen the documentation surrounding ICC's liquidity stress testing methodology, including by providing additional scenario descriptions and details on the computation of liquidity resources, and ensure uniformity with the STF. ICC believes that the amendments would 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 changes to ICC's RMF, RMMD, RPSRP, STF, and LRMF. ICC has respectfully requested confidential treatment for its RMF, RMMD, RPSRP, STF, and LRMF, which were 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 Alarcon".

Maria Alarcon  
Staff Attorney