



Maria Alarcon
Staff Attorney

September 22, 2021

Re: Updates to ICE CDS Clearing: Back-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 ICE CDS Clearing: Back-Testing Framework (“Back-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 Back-Testing Framework, which describes ICC’s back-testing approach and procedures and includes guidelines for remediating poor back-testing results. This submission includes a description of the changes to the Back-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.

The proposed amendments include additional description on the lookback period for back-testing and other clarifications. ICC proposes a clarification change in Subsection 1.2. The Back-Testing Framework discusses ICC’s back-testing analysis, which verifies that the number of actual losses is consistent with the number of projected losses. The proposed clarification to Subsection 1.2 specifies that the ICC Risk Department may consider back-testing analysis based on alternative statistical tests to assess the performance of its models in terms of statistical reliability.

ICC proposes new Subsection 2.1, which is intended to provide additional description and analysis on the lookback period for back-testing and would not change the methodology. Proposed Subsection 2.1 details the performance of back-testing analysis for Clearing Participant (“CP”) related portfolios. The proposed language discusses the maximum back-testing sample size, or the lookback period, and the benefit of allowing for a greater sample size in terms of assessing model performance. The proposed language also analyzes short lookback periods in combination with high risk quantile estimates. Moreover, ICC proposes to reference an alternative statistical test and describe how the model is considered to pass or fail the test. Proposed Figure 1 serves as an illustration under such alternative statistical test across different sample sizes and risk quantiles. Following such analysis, proposed Subsection 2.1 sets out ICC’s rationale for the minimum back-testing window length. Further, proposed Subsection 2.1 references the performance of additional analyses, as described in Section 4 of the Back-Testing Framework, and includes language concerning the reporting of back-testing results. ICC proposes to renumber the following subsections accordingly.

ICC proposes additional clarifications to the Back-Testing Framework. The proposed amendments include a footnote in amended Subsection 2.6 that references a relevant Commission regulation with respect to



ICC's performance of back-testing analysis. ICC further proposes amendments to Section 4, which contains guidelines for remediating poor back-testing results. Currently, poor back-testing results require a peer review of the risk models by the Risk Working Group ("RWG"), which is comprised of risk representatives from ICC's CPs, and remedial actions to improve model performance. The proposed changes describe an additional aspect presented to the RWG and note an assessment that corresponds to the performance of a back-testing analysis without overlapping periods. ICC also proposes to update Section 5, containing a list of references, to include a reference for the alternative statistical test described in proposed Subsection 2.1.

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 Back-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. ICC believes that the proposed changes would enhance ICC's ability to manage risks and maintain appropriate financial resources, including by ensuring that back-testing analysis is conducted properly to assess the performance of the model, thereby ensuring that ICC continues to maintain sufficient financial resources to withstand, at a minimum, the default of the two CP Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions.

Risk Management: The revisions to the Back-Testing Framework are consistent with the risk management requirements of Core Principle D and the risk management requirements in Commission Regulations 39.13 and 39.36. The Back-Testing Framework continues to require the performance of daily, weekly, monthly, and quarterly portfolio-level back-testing analyses, the performance of monthly parameter reviews and parameter sensitivity analyses, and the remediation of poor-back-testing results. The procedures in the Back-Testing Framework continue to promote the soundness of ICC's model and ensure that ICC's risk management system is effective and appropriate in addressing the risks associated with discharging its responsibilities.

Amended Rules:

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

Maria Alarcon
Staff Attorney