



Maria Alarcon
Staff Attorney

November 4, 2021

Re: Formalization of Counterparty Monitoring Procedures and Credit Rating System Model Description and Parameterization 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 to adopt and formalize the Counterparty Monitoring Procedures (the “CMPs”) and the Credit Rating System (“CRS”) Model Description and Parameterization (the “CRS Policy”) (together, the “Documents”). 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 adopt and formalize the CMPs and the CRS Policy. ICC would accordingly retire the CDS Clearing Counterparty Monitoring Procedures: Futures Commission Merchant (“FCM”) Counterparties (the “FCM Procedures”) and the CDS Clearing Counterparty Monitoring Procedures: Bank Counterparties (the “Bank Procedures”) (together, the “FCM and Bank Procedures”). This submission includes a description of the Documents and an explanation of where information in the FCM and Bank Procedures would reside following retirement. Certification of the CMPs and the CRS Policy pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC’s counterparty monitoring policies and procedures and credit scoring approach are divided by counterparty type in the FCM and Bank Procedures. Information with respect to FCM/broker-dealer (“BD”) counterparties and bank counterparties (i.e., non-FCM/BD counterparties) is set out in the FCM Procedures and the Bank Procedures, respectively. ICC proposes to adopt and formalize the CMPs to consolidate these existing counterparty monitoring policies and procedures for Clearing Participants (“CPs”) and financial service providers (“FSPs”) into one document. ICC proposes to similarly consolidate and move information related to its credit scoring approach into the CRS Policy, which ICC would adopt and formalize as a separate policy describing ICC’s CRS. The Documents are generally designed to enhance, clarify, and more clearly document descriptions of key ICC processes and procedures related to ICC’s counterparty monitoring practices and CRS.

CMPs

The proposed CMPs consolidate ICC’s existing counterparty monitoring policies and procedures for CPs and FSPs into one document. The proposed document would enhance and provide more clarity on ICC’s counterparty monitoring practices. This document is divided into 11 sections, which are detailed below.



The CMPs provide background with respect to ICC for the purpose of counterparty monitoring. Section 1 serves as an introduction with fundamental information about ICC's organization and operation. FSPs are defined as the entities to which ICC has actual or potential credit exposure (e.g., settlement banks, custodians, reverse repurchase counterparties). Section 2 gives an overview of the roles and responsibilities of ICC and external parties for counterparty monitoring, including the roles of CPs and FSPs in providing information requested by ICC and the roles of ICC's Risk and Operations Departments, Chief Risk Officer ("CRO"), and internal committees. Specifically, the ICC Risk Department is responsible for monitoring all counterparties, presenting information to relevant committees, and maintaining these CMPs. The CRO is responsible for reviewing and validating the Risk Department's counterparty credit findings and recommendations, which includes reviewing analysis, identifying where additional information is required, and ensuring that recommendations are supported. The Risk Department presents information to the ICC Participant Review Committee ("PRC") and the ICC Credit Review Subcommittee of the PRC ("Subcommittee"), which are internal committees that assist in fulfilling counterparty review responsibilities. The PRC is responsible for reviewing membership applications; monitoring ongoing compliance with membership requirements, including financial, operational, legal, and compliance requirements; and overseeing the due diligence and approval of FSPs. The Subcommittee assists the PRC in fulfilling counterparty review responsibilities, including monitoring and reviewing reports on the creditworthiness of counterparties on an at least monthly basis.

Section 3 discusses ICC's standards for counterparty relationships, namely the requirements for CPs and FSPs, and includes references to relevant existing documentation. Chapter 2 of the ICC Rules continues to set forth the membership requirements for CPs, which remain unchanged. Section 3 requires ICC, through the PRC, to perform an annual review of such criteria in the Rules to ensure continued sufficiency and appropriateness of the membership requirements. Further, under this section, FSPs must meet certain requirements and be approved by the PRC, meet the operational requirements of the ICC Treasury Department, and be subject to regulation and supervision by a competent authority. Section 3 also describes key steps, responsible parties, and relevant documentation regarding the processes of on-boarding new counterparties and the withdrawal of existing counterparties. For on-boarding new FSPs, the Risk Department is responsible for collecting necessary information and requiring the completion of a risk questionnaire which is presented to the Subcommittee and PRC. The PRC is responsible for overseeing the withdrawal process for FSPs, which includes confirmation from relevant departments that all exposures to the FSP have been closed out and all legal agreements terminated.

The CMPs explain how ICC monitors the stability of its counterparties. Section 4 includes the financial elements of ongoing CP monitoring and discusses monitoring of other CP requirements, such as participation in ICC's price discovery process and default management simulations. Section 4 details the procedures associated with the Risk Department's intraday and daily monitoring functions for CPs and FSPs and specifies how issues are escalated and resulting actions are documented. This includes intraday monitoring of Risk Filter Threshold ("RFT") consumption to manage the intraday risk associated with incoming real-time position changes to a portfolio that may require pre-funding; a daily end-of-day review of initial margin and guaranty fund changes; intraday and daily monitoring of news and market metrics for CPs and FSPs; and monitoring and review of timely payments and notices from CPs. This section discusses the preparation and review of a monthly credit report on the financial condition of ICC's counterparties as part of the monthly monitoring process. The monthly credit report includes, among other items, a summary of the data used for the analysis, current and historical counterparty credit scores and changes per credit risk factor, exposures of CPs with respect to their total requirements, exposures of FSPs and current allocation and investment limits, and counterparties on the Watch List. Additional reviews of exposure to CPs and FSPs, counterparty qualitative analysis, RFT and investment allocations conducted as part of monthly monitoring are set out in Section 4 along with the procedures for escalating identified issues and documenting resulting actions. Furthermore, Section 4 further discusses how ICC monitors and manages its aggregate exposure to entities and their affiliates with which ICC maintains multiple counterparty relationships, including through limits on FSPs and CPs which are reviewed on a specified basis and more frequently as warranted. Exposures to FSPs are managed through investment allocations, which represent



limits established by the Risk Department for entities and are reviewed at least once a year. With respect to CPs, ICC manages the risk that it is willing to take, considering real-time position changes, through the RFT level which is reviewed at least once a month by the Risk Department. Moreover, this section describes the risk reviews that ICC completes for its counterparties. All counterparties are subject to an initial risk review and periodic risk reviews, which allow ICC to monitor the capacity of its counterparties to perform as required. The periodicity of these reviews is within a four-year time frame. The timing of review, the steps for conducting a risk review, the possible review outcomes, and escalation procedures are detailed. Under the CMPs, more frequent risk reviews may be performed if the latest periodic risk review was considered unsatisfactory or the counterparty was recently placed on the highest Watch List level. Section 5 describes ICC's CRS that computes credit scores for counterparties and specifies the frequency of review of the credit scoring methodology.

The CMPs detail how ICC identifies counterparties that may pose additional risk to it and include additional information relevant to ICC's monitoring responsibilities. Section 6 sets out the criteria for placing counterparties on the Watch List and the procedures for adding and removing counterparties to and from the Watch List. Regarding Watch List criteria, this section distinguishes between automatic placement on the Watch List based on credit score and qualitative considerations of counterparty deterioration that may merit placement on the Watch List or movement to a higher Watch List level. A credit score of 3.0 or higher warrants a counterparty to be automatically placed on the Watch List. Qualitative considerations include decreasing levels of capitalization and failure to maintain operations, infrastructure, and personnel capable of meeting requirements. The CRO determines if a counterparty should be added to the Watch List, except for automatic placement, and if a counterparty should be removed. The CRO may consider recommendations regarding which counterparties to add to the Watch List as well as counterparty Watch List level changes from the Subcommittee and PRC. Section 7 details the actions available to ICC with respect to CPs or FSPs on the Watch List or for whom a deficiency is identified during the monitoring process. Actions the CRO may take include, among others, an increase in initial margin requirements, notification to the Board, recommendation for suspension of clearing privileges, or termination of the relationship with the FSP. Section 7 also discusses how such actions are determined, documented, and escalated. The Risk Department is responsible for contacting firms to discuss activity that raised concern. The CRO is responsible for documenting the details, rationale, and criteria used in determining actions taken against the CP, and the documentation is presented to the Subcommittee. For FSPs, concerns are escalated to ICC Senior Management to evaluate the issues and determine what, if any, additional actions should be taken. Finally, the CMPs include additional information regarding the confidentiality of credit scores in Section 8, record keeping responsibilities in Section 9, references in Section 10, and the revision history in Section 11.

CRS Policy

The proposed CRS Policy describes ICC's CRS and provides additional clarity on the processes and procedures related to ICC's credit scoring approach. The proposed document is divided into 9 sections, which are detailed below.

The CRS Policy contains background on ICC's CRS that computes credit scores for counterparties. Section 1 describes the CRS and sets out its purpose, which is to rate counterparties and identify counterparties that may exhibit inconsistent financial performance or that show signs of operational and risk management weaknesses and require more extensive analysis. The CRS estimates a credit score representative of the financial condition of the counterparty and relies on credit risk factors representing a combination of data and performance ratios derived from financial reporting and market information. Section 1 specifies that the ICC Risk Department is responsible for calibrating the credit risk factor metrics. Section 2 explains the scope of the CRS, which features two credit scoring models due to the variety of CPs and FSPs facing ICC. Section 2 summarizes each credit scoring model and its corresponding model components and provides a range of possible credit scores and credit score interpretations. The credit scoring scale ranges from 1 to 5, with a score of 1 indicating the strongest financial stability and the level of least concern and a score of



5 indicating the weakest financial stability and the greatest level of concern. This section further summarizes the data required for the CRS and describes how implementation of the CRS is supported internally.

The CRS Policy describes the model components of each credit scoring model in detail. Section 3 discusses the selection of credit risk factors, which are divided into financial and market metrics. Financial metrics provide a point in time view of the state of the company, while market metrics are used to capture frequent changes in the market sentiment of the companies facing ICC. Section 3 includes descriptions of the credit risk factors. For each credit risk factor, this section specifies corresponding metrics, relevant definitions, formulas, applicability based on type of counterparty, and key regulatory requirements, among others. The CRS also considers a qualitative assessment, which allows flexibility to incorporate additional information (e.g., business risk, litigation risk, management actions) regarding the counterparty into the credit score, and provides a range of possible qualitative assessment scores and qualitative assessment score interpretations. Furthermore, Section 3 notes the use of proxies for counterparties that may not report the exact metrics described in this document.

Model specifications are also included in the CRS Policy. Section 4 describes the calibration of the model component weights. Each credit risk factor receives its own credit risk factor-specific weight. This section notes how credit risk factor weights are determined and discusses the testing of the weights between the financial and market metrics to measure the effectiveness of the scoring model in identifying early signs of weakness. Section 4 further discusses metric parameterization for each credit risk factor and provides input values, metric descriptions, graphical representations, assumptions, parameter sets, and calibrated values, among others.

The CRS Policy specifies the data required for the CRS to compute credit scores and memorializes other information relevant to the CRS. Section 5 includes procedures for collecting data from internal and external sources and describes the case in which component weights are reallocated based on the availability of data. Section 5 further explains how the adequacy of the data is ensured and assigns responsibility for checking the validity of data and remedying inconsistencies. Under Section 6, the credit risk factors, corresponding metrics and parameterization of the credit scoring model are reviewed at least once a year. Results are evaluated based on predefined thresholds, which are set out in this section, and actions are taken to update the model parameterization if needed. Section 7 specifies the assumptions and limitations of the CRS. Section 8 contains a list of references, and Section 9 includes the revision history. The appendices maintain other relevant information for the purpose of using the CRS, including a list of proxies and information relevant to metric parameterization.

Retirement of the FCM and Bank Procedures

ICC proposes retiring the FCM and Bank Procedures. The below list summarizes where the information in the FCM and Bank Procedures would reside following retirement and differences from the proposed Documents.

- Introduction and Overview: Information in Section I would be moved to Section 1 of the CMPs.
- Roles and Responsibilities: Information in Section II would be moved to Section 2 of the CMPs. The CMPs memorialize the Risk Department's responsibility of presenting information to relevant committees. Moreover, under the CMPs, the PRC is responsible for the approval of FSPs.¹
- Monitoring Scope: Information in Section III would be moved to Section 4 of the CMPs. While additional procedures or detail is included and there are minor differences in drafting style or terminology, ICC does not propose material changes to its monitoring scope. Procedures are added describing ICC's monitoring of RFT consumption and how issues are escalated and resulting

¹ See Submission No. 2107-1415-2446-97, dated July 14, 2021 for more information on the responsibilities of the PRC.



actions are documented. Language related to ICC's monitoring and management of aggregate exposure to entities with which ICC maintains multiple counterparty relationships is also included, as well as procedures associated with FSP investment allocation and RFT limits. More detail, such as steps for conducting a risk review, possible review outcomes, and criteria for more frequent risk reviews, are also set forth. Further, the list of general information maintained for counterparties in the FCM and Bank Procedures is removed given the additional procedures in the Documents in respect of counterparty review and CRS data.

- Clearing House Counterparty Credit Rating System: Information in Section IV would be moved to Section 5 of the CMPs and Sections 2-4 of the CRS Policy. While the information is reorganized and additional detail or procedures are included, ICC does not propose material changes to its credit scoring approach. ICC specifies the frequency of review of the credit scoring methodology in Section 5 of the CMPs. Descriptions of the credit risk factors, metrics, and qualitative assessment are moved to Sections 2 and 3 of the CRS Policy and information related to metric parameterization and computations, including input values, graphical representations, parameter sets, and calibrated values is moved to Section 4 the CRS Policy. Minor revisions to credit score interpretations are made in the CRS Policy, including removing language associated with the Watch List which would be contained in the CMPs. Additional language is proposed in the CRS Policy to describe the CRS and credit scoring approach broadly (Section 1), model foundations and selection of credit risk factors and metrics (Section 3), testing of the weights between metrics and model performance testing (Sections 4 and 6), data sources and data quality (Section 5), and assumptions and limitations of the CRS (Section 7).
- Additional Internal Rating Considerations: Information in Section V (FCM Procedures only) would be moved to Section 4 of the CRS Policy.
- Data Proxies: Information in Section VI (FCM Procedures) and Section V (Bank Procedures) would be moved to Section 3 of the CRS Policy.
- Information Privacy: Information in Section VII (FCM Procedures) and Section VI (Bank Procedures) would be moved to Section 8 of the CMPs.
- Record Keeping: Information in Section VIII (FCM Procedures) and Section VII (Bank Procedures) would be moved to Section 9 of the CMPs.
- Watch List Criteria: Information in Section IX (FCM Procedures), Section VIII (Bank Procedures), and Appendix 3 would be moved to Sections 6 and 7 of the CMPs. The FCM and Bank Procedures list reasons for placing counterparties on the Watch List and Appendix 3 specifies that counterparties exhibiting certain criteria may be placed on the Watch List (e.g., deterioration in credit score, capitalization, operational or other violations). The Watch List criteria is updated in the CMPs to distinguish between automatic placement on the Watch List based on credit score and qualitative considerations of counterparty deterioration that may merit placement on the Watch List or movement to a higher Watch List level.
- Appendices 1 and 2 are moved to the appendices of the CRS Policy and Appendix 3 is removed.

Consolidation of the FCM and Bank Procedures with respect to counterparty monitoring in the CMPs and with respect to the credit scoring approach in the CRS Policy would allow ICC to avoid unnecessary repetition. The Documents are generally designed to enhance, clarify, and more clearly document descriptions of key ICC processes and procedures related to ICC's counterparty monitoring practices and CRS, and not to materially change existing processes and practices in the FCM and Bank Procedures. Additional detail is memorialized in the Documents which was not previously in the Bank and FCM Procedures, including ICC's standards for counterparty relationships and procedures for counterparty onboarding and withdrawal in Section 3 of the CMPs and a comprehensive description of the CRS, including its foundations, data, testing, and assumptions and limitations, in the CRS Policy. Overall, the purpose of and substance across the documents remains largely consistent with some differences in drafting style or terminology, additional procedures or detail, and other minor updates or revisions.



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 CMPs and the CRS Policy are consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33. The Documents enhance ICC’s ability to manage its financial resources as they are designed to minimize the risk associated with ICC’s counterparty relationships by more clearly describing key processes, controls, decisions, and escalations associated with ICC’s counterparty review and monitoring processes and CRS. Memorializing the processes and procedures associated with the CRS in the CRS Policy would strengthen the CRS to ensure that it appropriately estimates credit scores representative of the financial condition of counterparties. The Documents thus promote ICC’s ability to ensure financial health and the ability to fulfill obligations by ICC’s counterparties, which promotes and strengthens ICC’s own financial condition and supports 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.

Participant and Product Eligibility: The CMPs and the CRS Policy are consistent with the participant eligibility requirements of Core Principle C and Commission Regulation 39.12. The Documents do not change ICC’s existing CP membership criteria. They are designed to more clearly document the standards for counterparty relationships and the associated monitoring processes to ensure that responsible parties carry out their duties and appropriately monitor for compliance with such requirements. ICC’s membership requirements continue to be objective, publicly disclosed, and permit fair and open access, consistent with the requirements of Core Principle C and Commission Regulation 39.12.

Risk Management: The CMPs and the CRS Policy are consistent with the risk management requirements of Core Principle D and Commission Regulations 39.13 and 39.36. Consolidation of the FCM and Bank Procedures regarding counterparty monitoring in the CMPs and regarding the credit scoring approach in the CRS Policy would allow ICC to avoid unnecessary repetition, avoid potential confusion between policies, and promote efficiency. The Documents would facilitate and enhance ICC’s ability to carry out its counterparty monitoring responsibilities and manage counterparty credit risk and thus promote overall risk management and the stability of ICC. Such updates 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.

Treatment of Funds: The CMPs and the CRS Policy are consistent with the treatment of funds requirements of Core Principle F. The Documents memorialize the processes and procedures associated with managing credit risk from ICC’s counterparties, including FSPs who are defined as the entities to which ICC has actual or potential credit exposure (e.g., settlement banks, custodians, reverse repurchase counterparties). The CMPs describe ICC’s requirements for FSPs, the procedures for intraday, daily, and monthly monitoring of the financial and operational capacity of FSPs, and the procedures for placing counterparties on the Watch List. Accordingly, the Documents would continue to ensure that ICC safeguards its own and its participants’ assets, minimizes the risk of loss and delay in access to these assets, and invests such assets in instruments with minimal credit, market, and liquidity risks, consistent with the requirements of Core Principle F.

Amended Rules:

ICC proposes to adopt and formalize the CMPs and the CRS Policy. ICC would accordingly retire the FCM and Bank Procedures. ICC has respectfully requested confidential treatment for the CMPs, CRS Policy, FCM Procedures, and Bank Procedures which were submitted concurrently with this self-certification submission.



Certifications:

ICC hereby certifies that the CMPs and the CRS Policy 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