

Sarah Williams
Staff Attorney

December 16, 2016

Re: Formalization of the ICC Stress Testing Framework 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 to formalize the ICC Stress Testing Framework. ICC is registered with the Commission as a derivatives clearing organization (“DCO”). ICC intends to formalize the Stress Testing Framework 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 formalize its Stress Testing Framework, which sets forth the stress testing practices instituted by ICC. This submission includes a description of the Stress Testing Framework and the stress testing arrangements set forth therein. Certification of the ICC Stress Testing Framework pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

The Stress Testing Framework is designed to: articulate the types of stress tests executed and the main purpose of each type of test; describe how stress tests are conducted; define the actual test scenarios currently executed; outline the range of remedial actions available (which, depending on the results, may include enhancements to the risk methodology or certain Clearing Participant (“CP”) specific action); and explain how stress test results are used in the governance process.

ICC continues to evolve its stress testing practices for many reasons, including an increase in the number and type of instruments eligible for clearing, and evolution of the CDS market and the cleared portfolios themselves. The stress testing framework helps ICC identify potential weaknesses in the risk management methodology currently used. As such, the framework allows ICC to identify potential model enhancements to the Initial Margin and Guaranty Fund models, as well as identify the need to exercise short term remedies based upon specific CP positions and risk of exposure prior to introduction of model enhancements.

The framework outlines the stress test methodology employed by ICC. During the execution of stress testing, the ICC Risk Department (“Risk Department”) applies the standard set of pre-defined Stress Test Scenarios (as defined on the next page) against actual portfolios, sample portfolios derived from currently cleared positions, and expected future portfolios, as appropriate, to generate hypothetical profits or losses. The Risk Department compares the hypothetical losses to the available funds from the Initial Margin requirements and Guaranty Fund contribution related to the selected portfolios. A scenario deficiency is identified in the event that the hypothetical loss exceeds the protection provided by the

available collateral assets and mutualization funds. Depending on the plausibility of the Stress Test Scenarios and the frequency and severity of any resulting deficiencies, the Risk Department may recommend enhancements to the risk methodology.

ICC utilizes certain predefined scenarios for its stress testing, which fall into three standard categories: (i) historically observed extreme but plausible market scenarios; (ii) historically observed and hypothetically constructed (forward looking) extreme but plausible market scenarios with a baseline credit event; and (iii) extreme model response tests (collectively, "Stress Test Scenarios"). Discordant scenarios (i.e. scenarios under which selected risk factors move in opposite directions; commonly the behavior deviates from historically observed behavior) are applied to certain instruments to account for discordant price moves. ICC utilizes Risk Factor specific scenarios for all Stress Test Scenarios.

ICC applies the Stress Test Scenarios to a variety of portfolios. Specifically, ICC applies the Stress Test Scenarios to all currently cleared portfolios. The Risk Department may also apply the Stress Test Scenarios to sample portfolios obtained from currently cleared portfolios. The Risk Department may also apply the Stress Test Scenarios to staff-constructed, expected future portfolios, as appropriate, to mimic expected future portfolios upon the launch of new services. In this case, the stress test analysis is presented to and reviewed by the Risk Committee prior to the launch of the new clearing services. ICC may design specific portfolio sets to test the validity of certain model/system assumptions. The stress test results from such expected future portfolio executions are reviewed and analyzed internally, and may be used to support future model initiatives.

ICC also designs stress test analysis directed toward the identification of wrong-way risk in cleared portfolios. For every cleared portfolio, all positions in index and single name risk factors that exhibit high degree of association with the considered CP are used to create a sub-portfolio which will be subjected to additional stress test analysis. The constructed sub-portfolio is subjected to the same Stress Test Scenarios utilized by ICC.

The framework also describes ICC's reverse stress testing (Guaranty Fund Adequacy Analysis) practices. The purpose of the adequacy analysis is to provide estimates for the level of protection achieved by the clearinghouse via its Initial Margin and Guaranty Fund models. In performing its analysis, ICC considers a combination of adverse price realizations and idiosyncratic credit events associated with reference obligations on which the stress tested CP sold protection. The Stress Testing Framework also describes the correlation sensitivity analysis performed by ICC, based on Monte Carlo simulations, as well as the additional recovery rate sensitivity analysis.

The framework also details how stress testing is utilized in ICC's governance process. ICC maintains a framework to ensure that the Risk Committee and Board are provided the appropriate level of transparency into the Risk Department's stress test results and contemplated methodology changes. Stress testing results are reviewed, at a minimum, by the Risk Department weekly. Additionally, stress testing results are provided to the Risk Committee weekly and a report of such results is presented to the Risk Committee on a monthly basis. Ad hoc reviews of the stress testing results may be undertaken at the discretion of the Chief Risk Officer.

In the event of any deficiencies noted upon stress testing, the Risk Department must report such deficiencies to ICC senior management and the Risk Committee, and either (a) provide analysis that the results do not highlight a significant weakness in the stress testing or risk methodology; or (b) recommend enhancements to the stress testing or risk methodology. ICC senior management and the Risk Committee will review and recommend any stress testing or risk methodology enhancements to the Board, who is responsible for approval. The Risk Department may also choose to add new scenarios and portfolios in response to deficiencies noted upon stress testing; in this case, the Risk Department will discuss with the Risk Committee, who will recommend to the Board, who is responsible for approval.

The Risk Department maintains a standard set of Stress Test Scenarios and portfolios (namely actual portfolios, sample portfolios derived from currently cleared portfolios, and expected future portfolios) that are executed on a regular basis. In the event that a scenario or portfolio in the standard set is no longer

applicable, or has been superseded by new scenarios or portfolios, the Risk Department may wish to retire or modify the outdated scenario or portfolio. In this case, the Risk Department consults with ICC senior management; conducts analysis to support the recommendation; discusses the analysis and obtains a recommendation from the Risk Committee; and presents the final analysis to the Board approval. In the interest of prudent risk management, the Risk Department may wish to add scenarios and/or portfolios to the standard set; Risk Committee or Board approval is not required unless such scenarios and/or portfolios are added in response to stress testing deficiencies, as described above.

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 Principle as being impacted:

Risk Management: The Stress Testing Framework, and the stress testing arrangements detailed therein, is consistent with the risk management requirements of Core Principle D and the risk management requirements set forth in Commission Regulation 39.36. ICC’s Stress Testing Framework describes ICC’s stress testing practices, which are designed to ensure the adequacy of systemic risk protections. The Stress Testing Framework sets forth the methodology by which ICC evaluates potential portfolio profits/losses, compared to the Initial Margin and Guaranty Fund funds maintained, in order to identify any potential weakness in the risk methodology.

Financial Resources: The Stress Testing Framework, and the stress testing arrangements detailed therein, is consistent with the financial resource requirements of Core Principle B and the financial resource requirements set forth in Commission Regulation 39.33. The Stress Testing Framework contains stress testing practices designed to ensure that ICC maintains sufficient financial resources to withstand a default by the two CP Affiliate Groups to which it has the largest exposure in extreme but plausible market conditions.

Amended Rules:

ICC proposes to formalize the Stress Testing Framework. ICC has respectfully requested confidential treatment for the Stress Testing Framework which was submitted concurrently with this self-certification submission.

Certifications:

ICC hereby certifies that the Stress Testing Framework complies 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