Olivia Bazor
Staff Attorney

April 29, 2024

Re: Updates to ICC Collateral 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 to update the ICC Collateral Risk Management Framework ("CRMF"). 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.

This submission includes proposed revisions to the CRMF. A description of the proposed changes follows. Certification of the changes pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6(a) is also provided below.

ICC proposes to revise its CRMF. The CRMF describes ICC's collateral assets risk management methodology, including a description of ICC's quantitative risk management approach that accounts for the risk associated with fluctuations of collateral asset prices. The proposed revisions are described in detail as follows.

The primary purpose of the proposed revisions is to address an internal audit recommendation to remove the 2-day 99.9% Value-at-Risk ("VaR") risk measure from ICC's "haircut" model approach as such measure does not contribute to the determination of the collateral "haircut" factors and re-scale certain figures to accompany changes in the axis'.[1] In addition, ICC proposes revisions to the CRMF to correct errors in certain figures contained in the CRMF, typographical errors, and to update the revision history.

[1] Haircuts are a risk management tool where assets are priced and posted as collateral at a discount, otherwise known as the 'haircut' for the purpose of taking into account their native market risks (i.e., the risk of a decrease in value of the asset posted as collateral) as well as cross-currency risks (i.e., the risk of the change in value of one currency as compared to the value of another currency) when the collateral is to be used to cover an obligation denominated in a different currency.

Under the current CRMF, the computation of the "haircut" factors is achieved by comparing two risk measures: (i) the 5-day 99% Expected Shortfall risk measure and (ii) the 2-day 99.9% VaR risk measure, and then utilizing the more conservative of these two risk measures to determine the "haircut" factors that capture potential collateral value losses.[2] In general, the 5-day 99% Expected Shortfall risk measure is a more conservative measurement than the 2-day 99.9% VaR risk measure, given the nature of the calculation (i.e., expected shortfall versus VaR) and the longer measurement period (i.e., 5 days versus 2 days). As a result, the 5-day 99% Expected Shortfall risk measure is the more conservative risk measurement as compared to the 2-day 99.9% VaR risk measure, and it is expected that the 5-day 99% Expected Shortfall risk measure will continue to be the more conservative of these two risk measures. Therefore, the inclusion of the 2-day 99.9% VaR risk measure has not in the past contributed to the determination of collateral "haircut" factors, nor is it expected to in the future. As a result, removal of the 2-day 99.9% VaR risk measure will not impact ICC's determination of collateral "haircut" factors and the removal of this unnecessary risk measure will simplify the CRMF.

Furthermore, the 2-day 99.9% VaR risk measure is inspired by the general regulatory margin-period-of-risk[3] ("MPOR") for exchange-traded instruments, while the 5-day 99% Expected Shortfall risk measure is inspired by the MPOR for over-the-counter traded instruments. As ICC clears only over-the-counter swaps with a minimum MPOR of five days and does not clear exchange-traded instruments (with a 2-day MPOR), references to 2-day MPOR in the CRMF are not necessary.

To achieve the foregoing, ICC proposes revisions to the CRMF to remove all references to the 2-day 99.9% VaR risk measure and references the exchange-traded 2-day MPOR, which appear in the following sections of the CRMF: Section I.; Section 1.a. (including removal from Eq. 3); Section I.b. (including removal from Eq.5); Section III.; Section IV.a.; Section IV.b.; and Section IV.c. With the removal of the 2-day 99.9% VaR risk measure from the current two risk measure comparison, it is necessary to change plural nouns to singular nouns throughout the CRMF. In connection with the removal of the 2-day 99.9% VaR risk measure, ICC proposes to delete Figure 11, Figure 12, Figure 26, Figure 27, Figure 28, Figure 29, Figure 38, and Figure 39 from the CRMF as all such figures relate to the 2-day 99.9% VaR risk measure, including 1-day 99.9% VaR which was preserved to calculate 2-day 99.9% VaR.

As a consequence of deleting the figures discussed in the immediately prior paragraph, it is necessary to renumber the remaining figures, and references to the remaining figures, in the CRMF as follows:

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[2] The 1-day 99% VaR and the 1-day 99% ES risk measures are preserved in current figures 10, 24, 25 and 37. This is because under the statistical model, underpinning the 2-day 99.9% VaR and the 5-day 99% ES risk measures, are calibrated on the 1-day changes as discussed further in Section I, Paragraphs 2 and 3 of the CRMF, which summarizes (that the above-named current figures are still relevant as they preserve the 1-day risk horizon along with the 99% VaR back-testing results since they reflect the same quantile that is ultimately used to estimate collateral haircuts, namely the 99% quantile.

[3] Margin-period-of-risk or 'MPOR' is a maturity factor that is applied to reflect the length of exposure period over which the defaulted portfolio is exposed to changes in value.

- renumber Figure 13 to Figure 11;
- renumber Figure 14 to Figure 12;
- renumber Figure 15 to Figure 13;
- renumber Figure 16 to Figure 14;
- renumber Figure 17 to Figure 15;
- renumber Figure 18 to Figure 16;
- renumber Figure 19 to Figure 17;
- renumber Figure 20 to Figure 18;
- renumber Figure 21 to Figure 19;
- renumber Figure 22 to Figure 20;
- renumber Figure 23 to Figure 21;
- renumber Figure 24 to Figure 22;
- renumber Figure 25 to Figure 23;
- renumber Figure 30 to Figure 24;
- renumber Figure 31 to Figure 25;
- renumber Figure 32 to Figure 26;
- renumber Figure 33 to Figure 27;
- renumber Figure 34 to Figure 28;
- renumber Figure 35 to Figure 29;
- renumber Figure 36 to Figure 30;
- renumber Figure 37 to Figure 31; and
- renumber Figure 40 to Figure 32.

In addition to the foregoing proposed revisions related to the removal of the 2-day 99.9% VaR risk measure and the exchange-traded 2-day MPOR, ICC proposes the following additional revisions to the CRMF to re-scale certain figures and correct typographical errors. Specifically, ICC proposes to re-scale Figure 12, Figure 13, and Figure 26 to adjust the chart from percentage to bps. The change from percentage to bps does not affect the data, but it affects the visualization of the chart because when re-scaling from percentage to bps, the scale will be larger as 1 bps equals 1/100 of a percentage point. The figure numbers below reflect the figure renumbering as described above:

- Updated footnote 1 to the most current link to the ICC Collateral Management presentation on the Intercontinental Exchange, Inc. website;
- Revised Figure 5: re-scaled Figure 5 to adjust bin sizes[4] (which relate to the thickness of each bar in the histogram) and re-scaled from bps to the correct label of percentage ("%") on the x-axis;[5]
- Corrected and consistent use of defined term US TIPS;
- Corrected typographical error in label to Figure 8 which was incorrectly labeled Figure 5;

[4] 'Bin size' in risk data refers to the width of intervals used to group similar data points when analyzing risk. The underlying data remains the same regardless of the bin size. A change in bin size, while not including different data, might apportion the data more widely or more narrowly across the chart within newly created intervals. As the distributions change, so could the trend lines across the intervals change.

[5] While the visual illustration of Figure 5 has changed (it is merely illustrative), the underlying data and estimations have remained unchanged.

- Corrected and consistent use of defined term BTLS;
- Revised Figure 12: re-scaled Figure 12 from % to bps and added the correct label to x-axis;[6]
- Revised Figure 13: re-scaled Figure 13 from % to bps and added the correct label to x-axis;[7]
- Revised Figure 16: corrected the label in the y-axis from % to bps;
- Revised Figure 17: corrected the label in the y-axis from % to bps;
- Revised Figure 20: corrected the label in the y-axis from % to bps;
- Revised Figure 21: corrected the label in the y-axis from % to bps;
- Revised Figure 26: re-scaled Figure 26 from % to bps and added the correct label to the x-axis;[8]
- Revised Figure 28: corrected the label in the y-axis from % to bps; and
- Revised Figure 30: corrected the label in the y-axis from % to bps.

Lastly, ICC proposes to revise Section VI of the CRMF to update the revision history.

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 amendments are consistent with the financial resources requirements of Core Principle B and Commission Regulation 39.33. The amendments enhance ICC's ability to manage its financial resources by providing further clarity and transparency on its collateral assets risk management approach. The removal of the 2-day 99.9% VaR risk measure would simplify the CRMF and would promote effective operation of the collateral assets risk management model by eliminating an unused risk measure. ICC believes that having policies and procedures that clearly and accurately document its risk measurements associated with fluctuations of collateral asset prices is an important component to the effectiveness of ICC's risk management system and support ICC's ability to maintain adequate financial resources and collateral management resources. 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 amendments are consistent with the risk management requirements of Core Principle D. The proposed revisions enhance ICC's ability to manage its financial resources

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[6] Figure 12's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

[7] Figure 13's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

[8] Figure 26's underlying data and estimates have remained constant with the correction from % to bps, however, the histogram is merely illustrative and the plots have been adjusted to reflect the correct estimations.

by providing further clarity and transparency on its collateral assets risk management approach through the updated risk measures in the CRMF. The changes would not amend ICC's methodology but would promote effective operation of the collateral assets risk management approach by clarifying and simplifying the CRMF. 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.

Treatment of Funds: The amendments are consistent with the treatment of funds requirements of Core Principle F. ICC continues to limit the assets that ICC accepts as collateral to those with low credit, liquidity, and market risks. Further, the CRMF provides a clear framework for ICC to continue to set and enforce appropriately conservative haircuts for acceptable collateral assets. The governance procedures in the CRMF ensure that ICC establishes, reviews, and updates haircuts within defined intervals, and more frequently if deemed necessary. The changes thus serve to ensure the safety of funds and assets and to allow ICC to continue to hold such funds and assets in a manner by which to minimize the risk of loss or of delay in ICC's access to the assets and funds.

Amended Rules:

The proposed change consists of updates to the ICC CRMF. ICC has respectfully requested confidential treatment for the CRMF, 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 certifies that, concurrent with this filing, a copy of the submission was posted on ICC's website, which may be accessed at: https://www.ice.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 Olivia.bazor@ice.com or 904-855-5580.

Sincerely,

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Olivia Bazor
Staff Attorney